# EXHIBIT D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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| CARLOS MUNOZ, ET AL., | Case No.: 07-CV-10531 (AKH) |
| Plaintiffs, | |
| vs. | Judge: Hon. Alvin K. Hellerstein |
| CHINA EXPERT TECHNOLOGY, INC.; PKF NEW YORK, CERTIFIED PUBLIC ACCOUNTANTS, A PROFESSIONAL CORP.; PKF HONG KONG, CERTIFIED PUBLIC ACCOUNTANTS; AND BDO MCCABE LO LTD., CERTIFIED PUBLIC ACCOUNTANTS, | |
| Defendants. | |

**Declaration of Dr. Torben Voetmann**

February 17, 2012

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## I. Qualifications and Assignment

1. I am a Principal at Cornerstone Research, a financial and economic consulting firm. Prior to joining Cornerstone Research, I was a visiting professor at the Wharton School of the University of Pennsylvania and a faculty member of the New York Institute of Finance. At the Wharton School, I taught courses for graduate and undergraduate students in corporate finance and securities analysis (valuation). I received a BSc in business administration from Aarhus School of Business in 1991, an MSc in Finance from the Aarhus School of Business in 1993, and a Ph.D. in Finance from Copenhagen Business School in 2000.

2. My academic and professional work has been in the fields of financial economics (*e.g.*, the application of statistical methods within an economic framework), securities prices and markets, corporate finance, and valuation. A copy of my curriculum vitae is attached as Exhibit 1. I have not been deposed nor have I testified at trial during the past four years. Exhibit 2 contains a list of the documents I reviewed upon preparing this declaration.

3. I have been retained by Latham & Watkins, LLC and Winston & Strawn, LLP, counsel for Defendants in this action, to evaluate whether the declaration of Plaintiffs' expert, Dr. Adam Werner ("Werner Declaration"), provides a valid basis to conclude that the common stock of China Expert Technology, Inc. ("CXTI") traded in an efficient market during the period of March 31, 2006 through October 1, 2007 (the purported "Class Period").[1]

4. The analyses and opinions expressed in this declaration are my own. Cornerstone Research is being compensated for my time and work in this matter at my regular hourly rate of

[1] I received and considered both Dr. Werner's initial Declaration dated January 20, 2012 as well as his Amended Declaration dated February 8, 2012. Citations to particular paragraphs of the "Werner Declaration" throughout this declaration are to the Amended Declaration of Dr. Adam Werner dated February 8, 2012.

$495. My compensation does not depend upon the opinions that I deliver or the outcome of this matter. I have been assisted by the staff of Cornerstone Research, who worked under my direction.

## II. Summary of Opinions

5. My opinions may be summarized as follows:

- Werner's Conclusion Is Not Supported by the *Cammer* Factors: Dr. Werner claims to have examined the five *Cammer* factors as part of his analysis of whether the common stock of CXTI traded in an efficient market during the purported Class Period.[2] Based upon this examination, Dr. Werner asserts that each of these factors indicates that CXTI shares traded in an efficient market during the purported Class Period. Dr. Werner's conclusion is incorrect. He fails to note that two *Cammer* factors, including the critical fifth *Cammer* factor, were not met. Further, due to significant shortcomings in Dr. Werner's analysis, the Werner Declaration fails to establish that the stock of CXTI traded in an efficient market during the purported Class Period.

- Werner's Conclusion Regarding the Second *Cammer* Factor Is Incorrect: Though Dr. Werner claims that CXTI was followed by a sufficient number of equity research analysts to satisfy the *Cammer* factor related to analyst coverage, his assessment is incorrect. CXTI was not followed by even a single analyst for the majority of the purported Class Period. For the fraction of the purported Class Period when there was analyst coverage, CXTI was followed by a single analyst who issued a total of three reports on CXTI. Contrary to Dr. Werner's assertion, CXTI was never followed by four analysts. The *Cammer* factor regarding analyst coverage thus does not support a finding of market efficiency.

- Werner's Conclusion Regarding the Fifth *Cammer* Factor Is Incorrect: A critical *Cammer* factor is whether there is a cause-and-effect relationship between the disclosure of new information concerning a company and its stock price.
    - While Dr. Werner claims to have analyzed this factor, he fails to implement a generally accepted and reliable economic methodology to establish a cause-and-effect relationship. His methodology is flawed such that he fails to

[2] *See Cammer v. Bloom*, 711 F. Supp. 1264 (D.N.J 1989) ("*Cammer*").

establish that the requisite cause-and-effect relationship existed with respect to CXTI.

- In his analysis, Dr. Werner ignores several relevant CXTI news announcements which should have been included in a proper analysis of market efficiency. When those announcements are evaluated using Dr. Werner's own event study the results do not support his conclusion that CXTI's stock traded in an efficient market.

- The majority of the event days actually examined by Dr. Werner did not involve statistically significant movements in CXTI's stock price. Thus, even based on the arbitrarily limited event days studied by Dr. Werner, his declaration fails to establish the existence of a cause-and-effect relationship between the disclosure of new information regarding CXTI and movements in the company's stock price. Dr. Werner's use of his event study is not a reliable economic methodology, and does not establish that CXTI's stock price movements during the purported Class Period were anything more than random fluctuations.

- <u>Dr. Werner Fails to Consider Additional Relevant Factors</u>: Dr. Werner also fails to consider multiple factors which suggest that CXTI's stock did not trade in an efficient market.

  - First, Dr. Werner fails to investigate the institutional ownership of CXTI's stock. Comparing the institutional ownership of CXTI to an appropriate benchmark shows that the institutional ownership of CXTI was, in fact, statistically significantly lower than that of firms in the same industry and of similar capitalization. The low institutional ownership is an indicator of a lack of market efficiency for the CXTI stock.

  - Second, Dr. Werner fails to investigate short-selling of CXTI's stock. An analysis of short-selling shows that because institutional ownership in CXTI stock was below normal levels, the ability of investors to borrow stock in order to sell those shares short was extremely limited. Thus, Dr. Werner fails to consider whether arbitrageurs could have sold CXTI shares short throughout the purported Class Period, had they wanted to do so. Without considering this information, Dr. Werner cannot properly conclude that CXTI's stock traded in an efficient market.

  - Third, Dr. Werner fails to investigate the cost of trading CXTI's stock. An analysis of the cost of trading shows that the cost was higher than the average cost of trading stocks on the OTC BB, NASDAQ, and NYSE. The higher trading costs for CXTI are also an indicator of a lack of market efficiency for CXTI's stock.

6. In the remainder of this declaration, I provide the bases for my opinions, addressing in turn each of the market efficiency indicia discussed in the previous paragraph.

## III. CXTI Did Not Have Enough Analysts Coverage to Satisfy the *Cammer* Factor on Analyst Following

7. Analyst coverage represents an important factor in establishing an efficient market.[3] The Court in *Cammer* defined the factor on analyst coverage and explained why analysts were important as follows:

> [I]t would be persuasive to allege a significant number of securities analysts followed and reported on a company's stock during the class period. The existence of such analysts would imply, for example, the [company] reports were closely reviewed by investment professionals, who would in turn make buy/sell recommendations to client investors. In this way the market price of the stock would be bid up or down to reflect the financial information contained in the [company] reports, as interpreted by the securities analysts.[4]

8. Contrary to Dr. Werner's conclusion, there was not a "significant number of securities analysts" following CXTI during the purported Class Period. Dr. Werner identifies four entities that published reports during the purported Class Period regarding CXTI. In addition to Roth Capital Partners ("Roth"), his list includes ValuEngine, Inc. ("ValuEngine"), Institutional Brokers Estimates Systems ("I/B/E/S"), and WorldScope in his count of securities analysts who provided coverage of CXTI. In contrast to the reports issued by Roth Capital Partners, the articles by ValuEngine, I/B/E/S, and WorldScope were not signed by named

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[3] Cornell, Bradford, "Market Efficiency and Securities Litigation: Implications of the Appellate Decision in Thane," *Virginia Law & Business Review*, Vol. 2, Fall 2011, No. 2, p. 246 ("[W]hen a company is followed by a significant number of securities analysts, it can be inferred that financial information and other relevant news items are reviewed by sophisticated investment professionals who make purchase or sale recommendations to their clients. Therefore, the security's market price reflects the new information, as interpreted by the securities analysts and acted upon by their clients.").

[4] See *Cammer v. Bloom*, 711 F. Supp. 1264 (D.N.J 1989), p. 32.

analysts; *i.e.*, no analysts are associated with these reports. This is because ValuEngine, I/B/E/S, and WorldScope are not securities analysts. It is wrong for these three entities to be included in a list of securities analysts for several reasons, as I will explain below.

9. From my knowledge and review of its materials, ValuEngine is not a securities analyst that would satisfy the second *Cammer* factor. There were no investment professionals at ValuEngine who carefully analyzed CXTI's stock or made buy/sell recommendations. Rather, ValuEngine's recommendations are based on a comparison of the market price of a stock and its computerized quantitative valuation model. The model is implemented through the capture of income and stock return data from electronic databases.[5] ValuEngine includes more than 7,000 stocks in its database that are used to rank individual companies.[6] One article on ValuEngine, titled "Digitizing Graham and Dodd," describes ValuEngine's analysis as a "computer program."[7] Another article describes it as "a quantitative valuation and forecasting system."[8]

10. Based on my reading of the ValuEngine articles on CXTI, my understanding of the valuation model through a review of academic literature,[9] my review of the ValuEngine.com website, and my review of press articles on ValuEngine.com, there is no evidence that an individual analyst from ValuEngine actually read, much less analyzed, any of the CXTI-related disclosures or announcements. Moreover, measures of analyst coverage generally only include

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[5] http://www.valuengine.com/pub/main?p=0.

[6] See statement by ValuEngine: "Just as important as the percentages shown for our ten predictive variables for each stock is the way they are ranked against the 7000 plus stocks in our database."

[7] Schifrin, Matthew, "Digitizing Graham and Dodd," Forbes.com, March 20, 2003, http://www.forbes.com/best/2003/0320/002.html.

[8] "ValuEngine Inks Deal with MarketWatch.com," *Business Wire*, December 4, 2001.

[9] See, for example, Bakshi, Gurdip and Zhiwu Chen, "Stock Valuation in Dynamic Economies," 2005, *Journal of Financial Markets*, Vol. 8, No. 2, 111–151; Dong, Ming and David Hishleifer, "A Generalized Earnings-Based Stock Valuation Model," November 15, 2004, *The Manchester School*, Supplement 2005, 1463–6789, 1–31; Chen, Zhiwu and Ming Dong, "Stock Valuation and Investment Strategies," Yale ICF Working Paper No. 00–46, June 30, 2001;and Chang, Chia-Yu, Zhiwu Chen, and Ming Dong, "Investing With a Stock Valuation Model," Working Paper, September 29, 1999.

analysts who provide earnings forecasts,[10] and ValuEngine does not make earnings forecasts. For these reasons, it would not be appropriate to count ValuEngine as an "analyst." In summary, ValuEngine is an "aggregator" of information relating to thousands of stocks, which it funnels through its software models; it is not a securities analyst under the second *Cammer* factor.

11. Dr. Werner also counts I/B/E/S as an analyst providing coverage of CXTI. However, I/B/E/S does not describe itself as a company providing analyst coverage. I/B/E/S is effectively a database of financial information and recommendations collected from several other sources. I/B/E/S describes itself on its website in the following manner:

> I/B/E/S provides detailed and consensus estimates featuring up to 26 forecast measures including GAAP and pro-forma EPS, revenue/sales, net income, pre-tax profit and operating profit, and price targets and recommendations for more than 60,000 companies in 67 countries.[11]

12. I/B/E/S is not an analyst, but rather an aggregator of information and estimates put out by analysts. Hence, it would not be appropriate to count I/B/E/S as an "analyst."

13. As with ValuEngine and I/B/E/S, Dr. Werner suggests that WorldScope provided analyst coverage; however, WorldScope is a provider of financial data. It is not an analyst. WorldScope describes itself on its website as follows:

> WorldScope's fundamental data on the world's leading public and private companies represents over 95% of global market value. Widely respected

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[10] For instance, Brad M. Barber, Paul A. Griffin, and Baruch Lev, in "The Fraud-on-the-Market Theory and the Indicators of Common Stocks' Efficiency," in the *Journal of Corporation Law*, Winter 1994, define "analyst following" as follows: "Analyst following is measured as the number of analysts who make earnings forecasts… during the 90 days of each fiscal quarter." (See p. 300.) As another example, Michael J. Brennan, Narasimhan Jegadeesh, and Bhaskaran Swaminathan, in "Investment Analysis and the Adjustment of Stock Prices to Common Information," *The Review of Financial Studies*, Winter 1993, Vol. 6, No. 4, define "analyst following" as follows: "The number of analysts following a particular firm in a given year was defined as the number of analysts making an annual earnings forecast in December of the previous year." (See p. 804.) Materials generated by ValuEngine include earnings forecasts that are based on consensus estimates of other analysts; *i.e.*, these earnings forecasts are not provided by ValuEngine. See, for example, "China Expert Technology Inc. (CXTI)," *ValuEngine*, February 7, 2006, p. 3.

[11] http://thomsonreuters.com/products_services/financial/financial_products/a-z/ibes/.

> for content quality, depth of detail, extensive company coverage and content presentation, WorldScope provides annual and interim/quarterly data, detailed historical financial statement content, per share data, calculated ratios, pricing and textual information. Standardized formats make for easy analysis of 57,000 companies with up to 20 years of historical data available.[12]

14. WorldScope provides data, calculates ratios, and presents the information in a standardized format, but it does not provide the independent analytical review or earnings forecast that an analyst would put forward. Hence, it would not be appropriate to count WorldScope as an "analyst."

15. The fourth entity listed by Dr. Werner is Roth. Roth was the only entity providing analyst research coverage of CXTI during any part of the purported Class Period. In contrast to the above entities, Roth describes itself on its website as providing "award-winning research"[13] and notes that it has a "research team of 20 Research Analysts."[14]

16. Roth initiated coverage of CXTI on December 18, 2006 and published two additional reports on CXTI during the purported Class Period: an amended version of the December 18, 2006 report was published on December 20, 2006, and a subsequent report was published on April 16, 2007.[15] The Roth analysts for CXTI were Mr. Gordon McBean and Ms. Judy Huang for the December 18, 2006 and the December 20, 2006 reports. The analysts for the April 16, 2007 report were Mr. Gordon McBean and Mr. Joshua Jabs. On August 10, 2007, Roth issued a notice indicating that it had terminated its coverage of CXTI and that their last estimates should not be relied upon.[16]

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[12] http://thomsonreuters.com/products_services/financial/financial_products/a-z/worldscope_fundamentals/.
[13] http://www.roth.com/main/Page.aspx?PageID=2010.
[14] http://www.roth.com/main/Page.aspx?PageID=6010.
[15] "Initiation of Coverage," *Roth Capital Partners*, December 18, 2006. "Company Update, Estimates," *Roth Capital Partners*, December 20, 2006. "Analysis of Sales/Earnings, Estimates Changed," *Roth Capital Partners*, April 16, 2007.
[16] "Dropping Coverage," *Roth Capital Partners*, August 10, 2007.

17. Although Roth provided analyst reports during the purported Class Period, the dates for which Roth followed CXTI were limited. As indicated by the timing of the reports listed above and as can be seen in Exhibit 8 of the Werner Declaration, Roth only covered CXTI for four months during the purported Class Period. Thus, because it is improper to count ValuEngine, I/B/E/S, or WorldScope as analysts, CXTI only had analyst coverage for four months during the purported Class Period. For the first eight full months and the final five full months, CXTI had no analyst coverage at all.

18. Another point ignored by Dr. Werner is that there were no "star" analysts covering CXTI.[17] Analysts that belong to the first team of the All-America Research Team selected by *Institutional Investor Magazine* are known as "star" analysts and generally have more influential recommendations than non-"star" analysts.[18] Some academic studies follow only the recommendations or forecasts of the "star" analysts.[19]

19. In summary, the purported Class Period covers eighteen months, but for fourteen of those months no analyst reports provided coverage of CXTI. Furthermore, CXTI was not followed by more than one analyst whose work would speak to market efficiency in the sense of the *Cammer* factors during the purported Class Period. The abnormally low—and for more than half the time, nonexistent—analyst coverage of CXTI is inconsistent with Dr. Werner's opinion

[17] An analyst is considered an All-America analyst if he/she was named to the first, second, or third teams, or was named a runner-up by *Institutional Investor Magazine*.

[18] See, for example, Stickel, Scott E., "The Anatomy of the Performance of Buy and Sell Recommendations," *Financial Analysts Journal*, September–October 1995, p. 33.

[19] See, for example, Asquith, Paul, Michael B. Mikhail, and Andrea S. Au, "Information Content of Equity Analyst Reports," *Journal of Financial Economics*, February 2005, Vol. 75, No. 2, pp. 245, 250.

that analyst coverage of CXTI meets the *Cammer* factor of "significant analyst following" during the purported Class Period.[20]

## IV. Dr. Werner's Analysis of the Price Reaction to Unexpected New Information Is Arbitrary and Unsupported

### A. Dr. Werner's Methodology Is Flawed and Unreliable

20. The Court in *Cammer* stated that:

> [I]t would be helpful to a plaintiff seeking to allege an efficient market to allege empirical facts showing a cause and effect relationship between unexpected corporate events or financial releases and an immediate response in the stock price. This, after all, is the essence of an efficient market and the foundation for the fraud on the market theory.[21]

21. The relationship that has to be examined in this fifth *Cammer* factor is whether unexpected corporate events or financial releases are accompanied by an immediate reaction in the company's stock price. Dr. Werner does not conduct such an examination. In its place, he examines six earnings announcements by CXTI. The problem with Dr. Werner's approach to establishing a cause-and-effect relationship is that he does not examine whether unexpected news led to stock price reactions. In an efficient market, unexpected news should affect the stock price when it is first announced.[22] An appropriate test specification would therefore have been to determine unexpected news and then test the stock price reactions.[23] Instead, Dr. Werner examines "whether or not CXTI's stock reacted significantly to earnings announcements."[24]

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[20] Werner Declaration, ¶ 40.
[21] See *Cammer v. Bloom*, 711 F. Supp. 1264 (D.N.J 1989), p. 33.
[22] See Ross, Stephen A., Randolph W. Westerfield, and Jeffrey Jaffe, *Corporate Finance*, 8th Ed. (Boston: McGraw-Hill Irwin, 2008), pp. 378–379.
[23] Deposition of Adam Werner, February 9, 2012, p. 24. ("Q. How did you determine what event days for her [Ms. Johnson, employee of Berkeley Economic Consulting] to look at? A. By looking at earnings announcements during the class period. Q.

22. To justify his flawed methodology, Dr. Werner cites an academic study that examined the speed and path of stock price adjustment to the degree of earnings *surprises*.[25] The study measured an earnings surprise by comparing actual earnings with forecasted earnings.[26] The study used forecasted earnings estimates from security analysts to measure the degree of earnings surprise, and concluded that the average speed of adjustments to "an earnings announcement is rapid, with the first trade occurring within fourteen minutes of an announcement.... [T]he major portion of the adjustment occurred within a few hours following an earnings release."[27]

23. In contrast to the academic study he cites, Dr. Werner does not conduct such an investigation; *i.e.*, there is no indication in the Werner Declaration that he determines whether any of the six earnings announcements would be considered earnings surprises.[28] Moreover, the fiscal year 2007 consensus estimate had not changed from its previous consensus estimates,[29] suggesting that the current consensus estimates were not readily available to determine whether the earnings announcements were, in fact, surprises under the definition provided by the study on which Dr. Werner bases his approach.

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Anything else? That's it? You just decide all earnings announcements during the class period will be your event days? A. To the extent that there is a reasonable number of them, yes. If possible, I prefer to look at earnings surprises because academic literature suggests that stocks should move with respect to earnings surprises as opposed to just earnings announcements.") See also Fama, Eugene F., "Efficient Capital Markets: II," *Journal of Finance* 46, Vol. XLVI, No. 5, December 1991, p. 1607. Dr. Werner cites to this study as a basis for establishing the cause-and-effect relationship. The study concludes that "[t]he cleanest evidence on market–efficiency comes from event studies... When an information event can be dated precisely and the event has a large effect on prices... As a result, event studies can give a clear picture of the speed of adjustment of prices to information."

[24] Werner Declaration, ¶ 47.

[25] Woodruff, Catherine S. and A. J. Senchack Jr., "Intradaily Price-Volume Adjustments of NYSE Stocks to Unexpected Earnings," *Journal of Finance* Vol. XLII, No. 2, June 1988, pp. 467–491.

[26] Woodruff, Catherine S. and A. J. Senchack Jr., "Intradaily Price-Volume Adjustments of NYSE Stocks to Unexpected Earnings," *Journal of Finance* Vol. XLII, No. 2, June 1988, p. 467.

[27] Woodruff, Catherine S. and A. J. Senchack Jr., "Intradaily Price-Volume Adjustments of NYSE Stocks to Unexpected Earnings," *Journal of Finance* Vol. XLII, No. 2, June 1988, p. 468.

[28] If Dr. Werner did do any such analysis he could not recall doing so at the time of his deposition, and his report does not reflect it. See Deposition of Adam Werner, February 9, 2012, p. 26. ("Q. Okay. So you didn't do any sort of determination as to whether they were earnings surprises as compared to earnings announcements in this case? A. I probably did, but as I sit here today, I don't recall.")

[29] See "China Expert Technology Inc. (:CXTT) Weekly Earnings Information," Thomson Reuters, April 8, 2007, May 12, 2007, and July 15, 2007.

24. Based on this approach, Dr. Werner appears to suggest that any new information that appeared on days with significant abnormal returns must be unexpected information, and that the unexpected information explains the abnormal returns. Consequently, if the market for CXTI stock is indeed efficient, it is reasonable that one would expect similar information released on other days also to be associated with significant abnormal returns. However, that is not the case.

25. I show, by replicating Dr. Werner's event study in Exhibit 3, that CXTI's stock failed to react to unanticipated news, both as one would expect and in a statistically significant way.[30] In fact, except for three days between March 31, 2006 and August 31, 2007, the stock price failed to react in a statistically significant way to *any* news.[31] This is odd. Based on probability theory, as Dr. Werner argues,[32] assuming a normal distribution and a 95% confidence level, one would expect to find approximately 19 days (5%) with statistically significant returns during the purported Class Period.[33] Surely, if there were several days on which relevant new information appeared in the market, but which were not associated with a significant stock price reaction, one would have to question the efficiency of that market, and the evidence would be inconsistent with the critical fifth *Cammer* factor.

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[30] In an event study, the abnormal return is the part of a stock's return that cannot be explained by market or industry developments and hence, under some conditions, can be attributed to the unexpected new information. If the test is properly specified, the abnormal return is generally considered to be statistically significant if there is less than a 5% probability that it could be due to chance alone. See also Werner Declaration, ¶ 51. ("Put another way, we have a 95% confidence that an actual abnormal return is not statistically significantly different from zero unless there is some non-random explanation.")

[31] Nothing that I say in this declaration should be interpreted to mean that I agree with the way Dr. Werner has conducted his event study. I simply replicated his event study model to confirm that the results he presented were accurate according to his event study model.

[32] Werner Declaration, ¶ 51.

[33] Deposition of Adam Werner, February 9, 2012, pp. 221–222. ("Q. [I]f none of the days… of 300 plus trading days have a statistically significant stock movement at a confidence level of 95 percent or higher, can you evaluate just the fifth factor and make a conclusion about efficiency? […] A. This is a hypothetical? Q. It is a hypothetical? A. Not with regards to this company.")

26. To establish a cause-and-effect relationship, it is necessary to examine news announcements that provide new, unanticipated information. Dr. Werner examines six earnings announcements during the purported Class Period. From the dates of these six earnings announcements, he finds two days with statistically significant abnormal returns, and four days with no statistically significant price reaction. Without any reliable economic basis, Dr. Werner thus concludes that the market for CXTI is efficient based on the statistical significance of only two trading days during the purported Class Period, which had more than 370 trading days. He further states that the lack of a statistically significant stock price reaction to an earnings announcement "simply means that the earnings announcement did not add any new information into the company's stock price."[34]

27. Exhibit 4 shows the abnormal return for each day during the purported Class Period. I find that Dr. Werner's regression model and event study do not demonstrate market efficiency, as he claims. Dr. Werner merely asserts that the abnormal returns support a conclusion that the market for CXTI stock was efficient.[35] His assertion is insufficient. He does not properly test for market efficiency because he does not examine the relevant information released in each announcement for new information. Even more fundamentally, he does not examine other news announcements that provide new, unanticipated information and the corresponding stock price reactions to those announcements.

28. In summary, Dr. Werner's methodology is flawed because he has not selected event days in a scientific manner, and he ignores other relevant days when new information was released relating to CXTI. Thus, Dr. Werner fails to implement a generally accepted and reliable

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[34] Werner Declaration, ¶ 47.
[35] Werner Declaration, ¶ 66.

economic methodology for examining relevant new information to establish whether the market was efficient for CXTI's stock. Instead, he merely asserts that the market was efficient based on his analysis of earnings announcements. Such a conclusion is not supported by his analysis. In fact, the small number of statistically significant trading days—smaller than statistically likely—actually suggests that he fails to provide any reliable economic basis for his assertion.

### B. Dr. Werner's Analysis of Earnings Announcements Is Insufficient to Establish Market Efficiency

29. On May 15, 2006, CXTI announced its financial results for 1Q06.[36] Based on his event study, Dr. Werner concludes that the positive price reaction to this announcement is "statistically significant at the 65% confidence level" and that "one might have guessed that the market would respond positively… My regression analysis serves to confirm my expectations."[37] Reaching this conclusion is in conflict with his statement that "we have a 95% confidence that an actual abnormal return is not statistically significantly different from zero, unless there is some non-random explanation."[38] In this instant, the stock price reaction to the earnings announcement is statistically indistinguishable from random or background noise.[39] As such, Dr. Werner's regression model does not confirm an expectation of a positive stock price reaction.

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[36] China Expert Technology, Inc. Form 8-K, "China Expert Technology Reports Financial Results for First Quarter of 2006," May 16, 2006. See also China Expert Technology, Inc. Form 10-Q for the period ending March 31, 2006.
[37] Werner Declaration, ¶ 53.
[38] Werner Declaration, ¶ 51.
[39] Using a 95% confidence level is standard practice. See, for example, Mitchell, Mark L., and Jeffry M. Netter, "The Role of Financial Economics in Securities Fraud Case: Applications at the Securities and Exchange Commission," *Business Lawyer* 49 (1994), pp. 545–590. ("An often used convention is the five percent rule-values greater than or equal to 1.96 standard deviations from the mean value are considered significantly different from the typical value because there is only a five percent chance that a randomly selected value will be 1.96 or more standard deviations from the true mean.")

30. On August 14, 2006, CXTI announced its financial results for 2Q06.[40] It also informed investors that its pro-forma earnings had increased by 20% compared to the previous year. Dr. Werner suggests that the negative stock price reaction to the August 14, 2006 announcement was due to CXTI's decline in net income when comparing 2Q06 and 2Q05. He further states that net income fell precipitously.[41] However, his analysis appears to ignore that the 2Q06 net income included non-cash expenditures related to a change in fair value of derivatives.[42] Without the non-cash expenditures, net income would have increased by 60.7%.[43] More importantly, however, the cash flows were unaffected by these non-cash expenditures. Based on his event study analysis, it is just as likely that the negative stock price reaction was caused by random noise. As Dr. Werner himself states, "unless there is some non-random explanation," the stock price reaction is statistically indistinguishable from zero.[44]

31. On November 14, 2006, CXTI announced its financial results for 2Q06.[45] CXTI announced revenue growth and that it had signed a new contract of $15 million with the Cangshan District of Fuzhou City.[46] On that day, Dr. Werner's event study reports a statistically significant positive abnormal return of 41%.[47] Dr. Werner's description of the news for that day is that "after a good earnings announcement as well as a contract announcement, CXTI's share rose."[48] Based on his analysis, it appears that there was no other news that day relevant to CXTI. If one considers the four earnings announcements analyzed by Dr. Werner along with similar

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[40] "China Expert Technology Reports Financial Results for Second Quarter 2006 – Second Quarter Revenue Increase 69%," *PR Newswire*, August 14, 2006. See also China Expert Technology, Inc. Form 10-Q for the period ending June 30, 2006.
[41] Werner Declaration, ¶ 54.
[42] "China Expert Technology Reports Financial Results for Second Quarter of 2006" *PR Newswire*, August 14, 2006.
[43] "China Expert Technology Reports Financial Results for Second Quarter of 2006" *PR Newswire*, August 14, 2006.
[44] Werner Declaration, ¶ 51.
[45] "China Expert Announces Record Revenue for Third Quarter 2006," *PR Newswire*, November 14, 2006.
[46] China Expert Technology, Inc., Form 8-K, November 15, 2006. See also China Expert Technology, Inc. Form 10-Q for the period ending September 30, 2006.
[47] Werner Declaration, Exhibit 11.
[48] Werner Declaration, ¶ 57.

news of earnings and new contracts (and their statistically insignificant price reactions), then in an efficient market the news on November 14, 2006 identified by Dr. Werner should have had no impact on CXTI's stock price—but Dr. Werner's model indicates that it did. Put differently, Dr. Werner has not been able to establish a cause-and-effect relationship between announcements of similar news and subsequent stock price reactions (or lack thereof). As such, Dr. Werner should have questioned the compatibility of the abnormal return following the November 14, 2006 announcement with his assessment of market efficiency. The conflicting results of his study, which Dr. Werner ignores, are potentially evidence *against* market efficiency. As such, Dr. Werner's analysis cannot properly conclude that the CXTI stock traded in an efficient market.

32. On April 12, 2007, CXTI announced its financial results for 4Q06.[49] Based on positive earnings news, Dr. Werner concludes that CXTI's stock price reaction "was statistically significant at the 80% confidence interval."[50] He further states, "I can say with 80% confidence that CXTI's abnormal return on April 13, 2007 is statistically different from zero."[51] Reaching this conclusion is in conflict with his statement that "we have a 95% confidence that an actual abnormal return is not statistically significantly different from zero, unless there is some non-random explanation."[52] In this instance, the stock price reaction to the earnings announcement is statistically indistinguishable from random or background noise. That is, his regression model does not confirm an expectation of a positive stock price reaction. Accordingly, one would have to conclude that the April 12, 2007 announcement, as analyzed by Dr. Werner, does not support a conclusion of market efficiency.

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[49] "China Expert Announces 2006 Fourth Quarter and Full Year Financial Results – Annual Revenues Increased 85.7 Percent to $66.1 Million While Income from Operations Increased 49.6 Percent to $21.2 Million Compared to 2005," *PR Newswire*, April 12, 2007. See also China Expert Technology, Inc. Form 10-K for the period ending December 31, 2006.
[50] Werner Declaration, ¶ 59.
[51] Werner Declaration, ¶ 59.
[52] Werner Declaration, ¶ 51.

33. On May 14, 2007, CXTI announced its financial results for 1Q07 and that it was awarded a new contract with Baise City for $10 million ($7.7 million net).[53] Earnings had decreased compared to the same quarter of 2006. Dr. Werner states that the news headline simply read, "China Expert Announces 2007 First Quarter Results." He continues by asserting that "to the extent that companies usually try to accentuate the positive in their announcement headlines, one might hypothesize that the market would react negatively. Not surprisingly, that is exactly what happened."[54] Dr. Werner's assertion that he would expect to see the market react negatively to this earnings announcement because the title of the announcement did not provide information about the actual quarterly earnings is at odds with an analysis of market efficiency. A proper analysis would consider the information disclosed by the quarterly financials; *i.e.*, the market is presumed to examine the actual content of the release and incorporate the new information into its valuation of the stock price. His assertion is also inconsistent with the evidence that CXTI disclosed in the announcement that it was awarded a new contract. Therefore, Dr. Werner fails to provide any reliable economic basis for his assertion.

34. On July 20, 2007, CXTI announced preliminary financial results for 2Q07 and the resignation of the company's CFO.[55] The stock price reaction following the announcement was statistically significant and negative 24%. Dr. Werner states that history has shown that "a CFO's resignation is rarely a good sign for a company's future prospects."[56] He makes this assertion based solely on one academic study of CFO departures. The study examines CFO appointments between 1984 and 1997 and claims that "[n]o refereed journal articles currently

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[53] "China Expert Announces 2007 First Quarter Results," *PR Newswire*, May 14, 2007. See also China Expert Technology, Inc. Form 10-Q for the period ending March 31, 2007.
[54] Werner Declaration, ¶ 60.
[55] "China Expert Technology Announces CFO Resignation; Provides Preliminary Results for 2nd Quarter: Revenues of $16.3 Million and Net Income of $5.1 Million," *PR Newswire*, July 20, 2007.
[56] Werner Declaration, ¶ 63.

exist on the role of CFO,"[57] suggesting that this may be the first and one of the only published studies on CFO resignations. Regardless, as I will discuss in the next section, the stock price reaction on this day is unlike the stock price reaction that occurred when another CFO resigned from CXTI, demonstrating that Dr. Werner has not established the cause-and-effect relationship he claims to have established.

35. In summary, Dr. Werner finds that four earnings announcements were associated with a stock price reaction that was statistically indistinguishable from zero. If the information in these four earnings announcements had previously been disclosed to the market, then the stock price reaction on those earlier dates would be relevant to an examination of the impact of that information. However, I have seen no evidence, based on Dr. Werner's analysis, of any prior public disclosures of the information contained in the four earnings announcements. Therefore, the fact that the abnormal returns are indistinguishable from zero does not support Dr. Werner's opinion that the market for CXTI stock was efficient. Nor does it enable Dr. Werner to establish a cause-and-effect relationship.

36. While Dr. Werner finds that the November 14, 2006 and July 20, 2007 announcements resulted in statistically significant stock price reactions, based on his analysis, it is not possible to establish whether either of those days demonstrates that the market for CXTI stock was efficient. Dr. Werner's analysis of the November 14, 2006 announcement is questionable at best, since the information contained in that announcement was similar to the information contained in the four earnings announcements with insignificant price reactions. In an efficient market with a cause-and-effect relationship between news and stock price reaction,

[57] Mian, Shehzad, "On the Choice and Replacement of Chief Financial Officers," *Journal of Financial Economics* 60, 2001, p. 144.

the news on November 14, 2006 should have had a statistically insignificant impact on the stock price, just as it did on four other earnings announcement days. Based on Dr. Werner's analysis of the July 20, 2007 announcement, one would have to question whether the stock price reaction to that announcement is supportive of market efficiency. Dr. Werner claims that CXTI's stock price reaction is explained by the CFO's resignation, yet when CXTI announced the resignation of another CFO in 2006, the stock price reaction was statistically indistinguishable from zero. Such conflicting results do not support Dr. Werner's assertion that the market for CXTI was efficient.

37. Next, I discuss some additional examples of results from Dr. Werner's own regression analysis that should have caused him to question whether the market for CXTI's stock was efficient.

### C. CXTI Stock Price Reaction to New Information Is Inconsistent with Market Efficiency According to Dr. Werner's Event Study

38. Dr. Werner argues that the new contract reported on November 14, 2006 provided relevant new information. To examine this statement, I identify other announcements of new contracts during the purported Class Period. As shown in Exhibit 5, CXTI issued 12 press releases announcing information on new contracts during the purported Class Period. On 11 of the 12 announcement days, according to Dr. Werner's event study, the new contact information was not associated with a statistically significant abnormal return. The lack of statistically significant stock price reactions to the new information is at odds with Dr. Werner's opinion that a cause-and-effect relationship exists. Dr. Werner considers news regarding new contracts as leading to positive and statistically significant returns where it is convenient for him—yet he fails to consider numerous other examples of similar information and their corresponding stock

price reactions. In Dr. Werner's event study, the lack of statistically significant returns in response to the announcement of new CXTI contracts on the dates selectively ignored by Dr. Werner suggests that the cause-and-effect relationship examined by the fifth *Cammer* factor is not met. Thus Dr. Werner's study does not support a conclusion that the market for CXTI stock was efficient during the purported Class Period.

39. Consider, for example, the information disclosed on December 20, 2006, when CXTI announced that it had signed two new contracts totaling $57 million.[58] As a response to the announcement, Roth Capital Partners issued a report commenting on the new contracts and raising its 2007 and 2008 EPS estimates. Despite the release of this new contract information, CXTI's abnormal return was not statistically significant according to Dr. Werner's event study.[59] Comparing this information to the statistically significant stock price reaction to the November 14, 2006 announcement illustrates that, based on Dr. Werner's analysis, it is not possible to establish sufficient evidence that a cause-and-effect relationship exists.

40. July 20, 2007 is another example that raises questions about the efficiency of the market for CXTI stock. According to Dr. Werner's event study, the abnormal return on July 20, 2007 was negative 24% and statistically significant. Dr. Werner attributes the price decline to the resignation of CXTI's CFO; however, he fails to mention that the purported Class Period includes another announcement of a CFO resignation by CXTI. On April 21, 2006 CXTI issued a press release announcing that its then-current CFO, Miss Chiang Min Liang, had resigned.[60] The stock price reaction on April 21 was positive 2.52% and not statistically significant. This second CFO resignation allows us to test Dr. Werner's hypothesis that "a CFO resignation…

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[58] "CXTI: Shares Spike on Additional Contract Wins in the Fujian Province," *Knobias.com*, July 20, 2007.
[59] See Exhibit 4.
[60] "CXTI: Chiang Min Liang Resigns as CFO; Fu Wan Chung Succeeds," *Market News Publishing*, April 21, 2006.

commonly result[s] in a significant price decline."[61] Given the positive and statistically insignificant stock price reaction to the resignation of Miss Liang, it is reasonable to expect a similar stock price reaction corresponding to the resignation of CFO Simon Fu on July 20, 2007. Yet, Dr. Werner's model shows a negative and statistically significant decline on the date of Mr. Fu's resignation. The contradictory stock price reactions to the April 21, 2006 and July 20, 2007 announcements call into question Dr. Werner's argument about CFO resignations and the reliability of his analysis to establish a cause-and-effect relationship.

41. Another example that raises questions regarding the validity of Dr. Werner's analysis is the August 14, 2007 announcement that CXTI was requesting a filing extension with the SEC.[62] When a company requests an extension to file its financial statements with the SEC, this is often perceived as negative information.[63] However, Dr. Werner's event study finds positive abnormal returns on the two days during the purported Class Period when CXTI requested extensions for its SEC filings: March 30, 2007 and August 14, 2007. The March 30, 2007 announcement was associated with a statistically insignificant and positive stock price reaction, according to Dr. Werner's model. Curiously, Dr. Werner finds a positive and statistically significant return of 28% on the date of the August 14, 2007 extension, which is not supportive of Dr. Werner's assertion that the market for CXTI stock was efficient. Indeed, the abnormal return on August 14, 2007 is likely evidence of market inefficiency, not of market efficiency.

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[61] Werner Declaration, ¶ 63.

[62] "China Expert Technology, Inc. Submits Five Day Filing Extension For Second Quarter Financial Results," *PR Newswire*, August 14, 2007.

[63] See, for example, Bartov, Eli, Mark L. DeFond, and Yaniv Konchitchiki, "Capital Market Consequences of Filing Late 10-Qs and 10-Ks," NYU Law and Economics Research Paper No. 11–05, Marshall School of Business Working Paper No. ACC 1–11. ("Timely disclosure of financial information is critical for well-functioning capital markets… We find that the market reacts negatively to announcements of late filings… In addition, we show that abnormal returns continue to decline during the months following the late filing announcement.") The results of this study show that the negative stock price reactions to late filings that it examined were statistically significant.

42. In summary, throughout the purported Class Period, there was no reliable relationship between changes in CXTI stock prices and public announcements of information to which these price changes can reasonably be attributed. Moreover, Dr. Werner provides insufficient evidence to establish a cause-and-effect relationship. His analysis does not examine relevant days with new information, and he only identifies three days with statistically significant returns over the period of March 31, 2006 through August 31, 2007. Based on Dr. Werner's analysis, it is not possible to determine whether the market for CXTI stock was efficient. Consequently, the analysis that Dr. Werner performs is not a generally accepted methodology and leads him to reach a conclusion that is unsupported and without any reliable economic basis.

## V. Dr. Werner Did Not Consider Other Factors Relevant to Determine Market Efficiency

### A. Institutional Investors

43. The existence of institutional investors and arbitrageurs, generally considered to be sophisticated investors who attempt to profit from trading mispriced securities, is another indication of market efficiency.[64] A security in which institutional investors are active is more likely to trade in an efficient market. An academic study "link institutional trading to more efficient prices."[65] The study further concludes that the "greater institutional holdings are

[64] Cornell, Bradford, "Market Efficiency and Securities Litigation: Implications of the Appellate Decision in Thane," *Virginia Law & Business Review*, Vol. 2, Fall 2011, No. 2, p. 246. ("[T]he existence of market makers and arbitrageurs, indicates that the subject company's securities react quickly to new information because market makers and arbitrageurs trade in ways that ensure the incorporation of new information into the securities' market prices.")

[65] See Boehmer, Ekkerhart and Eric Kelley, "Institutional Investors and the Informational Efficiency of Prices," *Review of Financial Studies,* Vol. 22, No. 9, 2009, p. 3564.

associated with improved efficiency."[66] The Court in *Cammer* emphasized the importance of the presence of arbitrageurs.[67,68]

44. Dr. Werner acknowledges[69] that analyzing the holdings by institutional investors is another means by which one can assess market efficiency, but fails to examine the level of institutional investors in CXTI as part of his analysis. In his declaration, Dr. Werner makes no attempt to understand whether holdings by institutions were relatively high, normal, or low during the purported Class Period for CXTI. If institutional holdings were abnormally low, one would have to be concerned that the influence of institutional investors on the efficiency of the market for the stock was limited.

45. In Exhibit 6, I compare institutional holdings of CXTI stock to institutional holdings in the communications equipment industry.[70] This Exhibit shows that institutional holdings of CXTI were low compared to institutional holdings of firms with similar capitalization in the communications equipment industry. For instance, in the beginning of the purported Class Period, institutional ownership of CXTI was 1.6%. Average institutional ownership of similar firms was 44.2%, or about 27.6 times the institutional ownership in CXTI. I conduct a statistical test for the significance of the difference in institutional ownership between

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[66] See Boehmer, Ekkerhart and Eric Kelley, "Institutional Investors and the Informational Efficiency of Prices," *Review of Financial Studies,* Vol. 22, No. 9, 2009, p. 3592.
[67] See *Cammer v. Bloom,* 711 F. Supp. 1264 (D.N.J 1989), p. 5.
[68] See Stulz, Rene M., "Hedge Funds: Past, Present, and Future," *Journal of Economic Perspectives*, 2007, Vol. 21, No. 2, pp. 175–194.
[69] Deposition of Adam Werner, February 9, 2012, p. 36. ("Q. As a Ph.D., do you believe that there are other relevant factors that weigh on the analysis? A. It's possible. Q. Can you think of any? A. Or I should say there could be. Certain academics feel the bid/ask spread is a possible indicator of market efficiency.... Other academics will look at size of institutional holdings.")
[70] I used the communications equipment industry as classified by Capital IQ. The Capital IQ communications equipment industry includes "[m]anufacturers of communication equipment and products, including LANs, WANs, routers, telephones, switchboards, and exchanges." See also China Expert Technology, Inc. Form 10-K for the period ending December 31, 2006, p. 3. ("The Company is engaged in the business of providing information technology (IT) network and infrastructure consulting services to government and corporations that are involved with creating electronic governments, also known as e–governments. The Company also provides large–scale network infrastructure construction with solutions for enterprise information platform construction, public LAN construction, software development, website planning and development, workflow management and computer hosting services.")

CXTI and firms of similar size in the same industry. The results of this test are also shown in Exhibit 6. For each reporting quarter, institutional ownership of CXTI stock was significantly lower than the average institutional ownership of other similarly sized firms in its industry.[71]

46. An examination of institutional ownership indicates that it was abnormally low for CXTI. Instead of being an argument in favor of market efficiency for the market of CXTI stock, the evidence on institutional ownership is a cause for concern about the lack of market efficiency.

**B. Short Interest**

47. Financial economists generally view the existence of obstacles to selling stocks short as impediments to market efficiency. Obstacles to selling a stock short imply that adverse information about a stock is not properly incorporated in the stock price, so that investors cannot assume that the stock price properly reflects negative information available to investors.[72] For example, one study exploited cross-country differences in short-sale restrictions and found that there is "a negative association between short sale restrictions and the diffusion of negative information into prices."[73]

48. The data from the study proves neither that short-selling is constrained, nor that it is not constrained. The reason for this is that a low amount of short-selling may mean either that there is little demand for short-selling, or that investors who want to short-sell cannot borrow

[71] As a proxy for CXTI's industry, Dr. Werner's analysis relies on the NASDAQ China Index. Werner Declaration, ¶ 49.
[72] See for example, Diamond, Douglas W. and Robert E. Verrecchia, "Constraints on Short-Selling and Asset Price Adjustment to Private Information," *Journal of Financial Economics,* June 1987, Vol. 18, No. 2, pp. 277–311. See also Bris, Arturo, William N. Goetzmann, and Nin Zhu, "Efficiency and the Bear: Short Sales and Markets around the World," *Journal of Finance*, June 2007, Vol. 62, No. 3, pp. 1029–1079. These studies emphasize the short sales constraints' asymmetric impact on market efficiency: not only do short sales constraints reduce overall price efficiency, but also such an effect is stronger when there is negative information.
[73] See Bris, Arturo, William N. Goetzmann, and Nin Zhu, "Efficiency and the Bear: Short Sales and Markets around the World," *Journal of Finance*, June 2007, Vol. 62, No. 3, p. 1072.

stock.[74] Available academic evidence shows that the supply of shares available for borrowing depends on the distribution of the ownership of shares. More specifically, an academic study shows that the holdings of institutional investors are the main source of borrowed shares.[75] Another academic study states explicitly that "[s]hort-sale constraints are most likely to bind among stocks with low institutional ownership.... Furthermore, stock loan supply tends to be sparse and short selling more expensive when institutional ownership is low."[76]

49. Consequently, the low holdings of CXTI stock by institutional investors indicate that the availability of stock to borrow was limited as well. In Exhibit 7, I calculate the short interest as a fraction of CXTI's total outstanding stock, average daily trading volume, and quarterly institutional holdings. The Exhibit shows that short interest was often a large fraction of average trading volume and institutional holdings. A large increase in the ratio of short interest to trading volume may be associated with an increased risk of shorting because it may become more expensive for short-sellers to cover their positions if they are forced to do so unexpectedly (perhaps because of recalls or short-squeeze).[77] The frequently high ratio of short interest as a percentage of institutional holdings underlines that the ability to sell CXTI stock short was seriously limited. Thus, one cannot conclude that investors who wanted to short-sell were not limited in their ability to do so by the lack of stock to borrow.

50. Thus, there is no support for Dr. Werner's opinion that arbitrageurs would have been able to sell short throughout the purported Class Period, had they wanted to do so.

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[74] See Cohen, Lauren, Karl B. Deither, and Christopher J. Malloy, "Supply and Demand Shifts in the Shorting Market," *Journal of Finance*, October 2007, Vol. 62, No. 5, pp. 2061–2096.
[75] See D'Avolio, Gene, "The Market for Borrowing Stock," *Journal of Financial Economics*, 2002, Vol. 66, pp. 271–306.
[76] See Nagel, Stefan, "Short Sales, Institutional Investors, and the Cross Section of Stock Returns," *Journal of Financial Economics*, 2005, p. 1.
[77] See Cohen, Lauren, Karl B. Diether, and Christopher J. Malloy, "Supply and Demand Shifts in the Shorting Market," *Journal of Finance*, October 2007, Vol. 62, No. 5, pp. 2061–2096, for a description of risks of shorting and their impact on the demand for shorting.

### C. Trading Costs

51. In his declaration, Dr. Werner makes no attempt to understand whether the trading costs are relatively high, normal, or low for CXTI, although he acknowledges this is another means to ascertain market efficiency.[78]

52. To examine whether the trading cost of CXTI stock was relatively high, normal, or low, I analyze the quoted bid-ask spreads using the data provided by Dr. Werner on market makers in CXTI. Exhibit 8 shows the results of the average quoted bid-ask spreads on the five highest trade volume days, as identified by Dr. Werner, during the purported Class Period. Using that data, I calculate the average bid-ask spread for each of the five days, and find the average spread is $0.4697 using equal weighting and $0.4088 using volume weighting.

53. An academic study examined the quoted bid-ask spreads of firms that were delisted from NASDAQ and subsequently traded on the OTC BB. The study found that the average bid-ask spread of companies on the OTC BB was $0.1286.[79] Compared to the quoted bid-ask spread for CXTI of $0.4697, the cost of trading CXTI was much higher than the cost of other OTC BB companies.

54. Comparing the quoted spread of CXTI against stocks that traded on NASDAQ and NYSE also shows that the quoted bid-ask spread for CXTI was much higher than the average bid-ask spread. A study by Professor Hendrik Bessembinder found that the average bid-ask spread for the NYSE small stock sample was $0.1751 using equal weighting and $0.1065

[78] Deposition of Adam Werner, February 9, 2012, p. 37. ("Q. As a Ph.D., do you believe that there are other relevant factors that weigh on the analysis? A. It's possible. Q. Can you think of any? A. Or I should say there could be. Certain academics feel the bid/ask spread is a possible indicator of market efficiency.... Other academics will look at size of institutional holdings.")
[79] Harris, Jeffrey H., Venkatesh Panchapagesan, and Ingrid M. Werner, "Off but Not Gone: A Study of Nasdaq Delistings," Dice Center WP 2008–06; Fisher College of Business WP 2008–03–005, March 4, 2008, p. 35.

using volume weighting.[80] He also found that the average bid-ask spread for the NASDAQ small stock sample was $0.2342 using equal weighting and $0.0798 using volume weighting.[81]

55. Thus, an analysis of the bid-ask spread on CXTI, using data provided by Dr. Werner, shows that on the five highest-volume trading days, the quoted spread by market-makers identified by Dr. Werner is much higher than the average bid-ask spread of companies trading on the OTC BB. Consequently, these results raise questions regarding whether the market for CXTI was efficient, as claimed by Dr. Werner.

## VI. Conclusion

56. In this declaration, I examine the analysis that Dr. Werner uses to support his opinion that the stock of CXTI traded in an efficient market, and I show that Dr. Werner's analysis has fatal flaws such that it does not support his opinion as he claims.

57. More specifically, I show that certain critical *Cammer* factors were not satisfied during the purported Class Period. For more than a year of the purported Class Period, CXTI was followed by no analysts, and at no time was CXTI followed by more than one analyst as the term "analyst" is generally understood.

58. Despite Dr. Werner's claim to examine whether there was a relationship of cause-and-effect between news announcements and stock price changes, I find his test specification fails to follow a generally accepted and reliable economic methodology. In addition, Dr. Werner's regression model does not provide any reliable economic basis to reach a conclusion that the market for CXTI stock was efficient. Using examples of relevant new information, Dr.

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[80] See Bessembinder, Hendrik, "Trade Execution Costs and Market Quality after Decimalization," *Journal of Financial and Quantitative Analysis*, December 2003, Vol. 38, No. 4, p. 755.
[81] See Bessembinder, Hendrik, "Trade Execution Costs and Market Quality after Decimalization," *Journal of Financial and Quantitative Analysis*, December 2003, Vol. 38, No. 4, p. 755.

Werner's regression analysis finds no impact on CXTI's stock price to the news in ways that one would expect to affect CXTI's stock price had it traded in an efficient market.

59. Evidence of participation of arbitrageurs in the market for CXTI stock is unusually weak. I show that institutional investors were significantly less active in the market for CXTI stock than in the market for stock of other firms of similar size in the same industry. Given the abnormally low holdings of CXTI's stock by institutional investors, the ability to sell the stock short was seriously limited. In addition, the cost of trading CXTI stock was higher than the average cost of stocks trading on the OTC BB, NASDAQ, and NYSE.

60. In summary, Dr. Werner does not use a reliable economic methodology to establish that the market for CXTI stock was efficient. Nor does he show that his analysis of the *Cammer* factors leads to the conclusion that the market was efficient, because critical *Cammer* indicia for market efficiency are not satisfied.

I declare under penalty of perjury that the foregoing is true and correct and accurately reflects my opinions in this matter.

February 17, 2012

Torben Voetmann

Torben Voetmann

# Exhibit 1


**TORBEN VOETMANN, Ph.D.**
**Principal**

**Cornerstone Research**
Two Embarcadero Center, 20th Floor • San Francisco, CA 94111
415.229.8100 • fax 415.229.8199
tvoetmann@cornerstone.com


## ACADEMIC BACKGROUND

1996 – 2000 **Copenhagen Business School** Copenhagen, Denmark
*Ph.D., Finance*

1991 – 1993 **Aarhus School of Business** Aarhus, Denmark
*Master of Science, Finance*

1988 – 1991 **Aarhus School of Business** Aarhus, Denmark
*Bachelor of Business Administration*

## PROFESSIONAL EXPERIENCE

2002 – Present **Cornerstone Research, Inc.** San Francisco, California
*Principal*

Provide consulting support on economic and finance issues related to securities, valuation, mergers and acquisitions, asset pricing, portfolio management, bankruptcy and breach of fiduciary duty. Supervise large teams supporting multiple experts. Develop valuation models, and conduct econometric analysis and research. Consult in all aspects of the litigation process including deposition and trial.

Case experience includes, for example:

- Assessed economic losses and loss causation for companies and investors in a range of industries, including banking, finance, real estate, oil and gas, software, media and telecommunications, retail, pharmaceuticals, biotechnology and transportation;
- Analyzed market timing in large mutual fund families;
- Examined the relationship between public information and stock returns;
- Analyzed the relationship between parent company and tracking stock returns;
- Analyzed and valued employee stock options;
- Conducted analyses of the market impact of short sales;
- Valued cash flows from structured transactions using Monte Carlo techniques;
- Valued companies using DCF models and multiples;
- Analyzed proxy disclosures and valuation of target companies in M&A matters;
- Applied academic research in behavioral finance in analysis of market efficiency;
- Analyzed materiality of information in securities matters related to the credit crisis;
- Analyzed the investment and optimization process of portfolio managers;
- Performed event studies to analyze premium and fairness of the exchange ratio in mergers and acquisitions in the telecom sector;

**TORBEN VOETMANN, Ph.D.**
**Principal**

## PROFESSIONAL EXPERIENCE (CONT.)

2002 – Present **Cornerstone Research, Inc. (CONT.)** San Francisco, California

- Analyzed the reaction of the defendant's stock price to information disclosures in 10(b)-5 and Section 11 classes;
- Analyzed portfolio rebalancing using a database with more than three million mutual fund transactions.

Led a training program on equity valuation using Excel and a training session on cost of capital for advanced analysts and developed training modules for analysts and associates.

1998 – 2004 **The Wharton School** Philadelphia, Pennsylvania

*Visiting Professor*

Corporate Finance: Undergraduate level, Graduate level, Honors section.

Security Analysis (Valuation): Undergraduate and Graduate level.

1994 – 1995 **Equitable** San Francisco, California

*Agent*

Sold financial products such as life insurance, annuity contracts, and health policies.

## PUBLICATIONS

"Discussion of the Pre and Post-Tax Discount Rates and Cash Flows: A Technical Note," co-author Jan Jindra, *Journal of Applied Research in Accounting and Finance (JARAF)*, 2010, Volume 5, No. 1, pp. 16-20, 2010.

"Event Studies," co-author Simon Benninga, chapter in *Financial Modeling*, 2008, 3rd Edition.

"A New Approach for Interpreting Long-Run Returns, Applied to IPO and SEP Stocks," co-author Jan Bo Jakobsen, *Annals of Economics and Finance*, 2005, Volume 6, pp. 337-363.

"Top executive turnovers: Separating decision and control rights," co-author Robert Neumann, *Managerial and Decision Economics*, 2005, Volume 26, pp. 25-37.

"Demand Curves for European Stocks Slopes Down Too: Evidence from Float Capitalization Index Weights in Dow Jones STOXX 50," co-author Robert Neumann, *Review of Finance* (formerly *European Finance Review*), 2003, Volume 7, pp. 437-457.

"Does Ownership Matter in the Presence of Strict Anti-Activism Legislation? Evidence From Equity Transactions in Denmark," co-author Robert Neumann, *International Review of Financial Analysis*, 2003, pp. 157-171.

"Post-Acquisition Performance in the Short and Long Run: Evidence from the Copenhagen Stock Exchange 1993 - 1997," co-author Jan Jakobsen, *European Journal of Finance*, 2003, Volume 9, pp. 323-342.

"Free Float Index Weights of KFX - Experiences from the Dow Jones Europe STOXX Index," co-author Robert Neumann, *Finans/Invest*, May 2001, pp. 23-27.

"The Performance of Danish Bidding Firms," co-author Jan Jakobsen, *Finans/Invest*, December 2000, pp. 10-13.

"Institutionelle og strategiske investorers betydning: resultater fra ¶29 meddelelser," co-author Robert Neumann, *Finansielle splinter*, 2000, pp. 65-71.

**PUBLICATIONS (CONT.)**

"CEO Turnovers and Corporate Governance," co-author Robert Neumann, *Finans/Invest*, December 1999, pp. 20-23.

"Are the Stock Markets Integrated or Segmented?" *Finans/Invest*, April 1992, pp. 23-25.

**WORKING PAPERS**

"An Exploration of the Listing Effect in Takeover Returns," co-author Jeffrey Jaffe, Jan Jindra, and David Pedersen.

"Skill in Corporate Acquisitions," co-author Jeffrey Jaffe and David Pedersen, *The Rodney L. White Center for Financial Research*, previously circulated under the title "Mergers and Persistence: A Test of Differential Skill in Corporate Finance," First draft October 2008. Last revised July 2009.

"Changes in the Bid-Ask Components Around Earnings Announcements: Evidence from the Copenhagen Stock Exchange," First draft May 1999. Last revised October 1999.

**CONFERENCE (ACCEPTED PAPER)**

Financial Management Association, "Skills in Corporate Acquisitions," October 2009, Reno, Nevada.

Eastern Finance Association Conference, "Mergers and Persistence: A Test of Differential Skill in Corporate Finance," May 2009, Washington, D.C.

Mid-Atlantic Research Conference in Finance (MARC), "Mergers and Persistence: A Test of Differential Skill in Corporate Finance," March 2009, Philadelphia, Pennsylvania.

Financial Management Association "Implementing Float Capitalization Index Weights – Price and Volume Effects," October 2002, San Antonio, Texas.

European Financial Management Association "Implementing Float Capitalization Index Weights – Price and Volume Effects," June 2002, London, United Kingdom.

Financial Management Association, "Implementing Float Capitalization Index Weights – Price and Volume Effects," June 2002, Copenhagen, Denmark.

Financial Management Association, "Volatility-Adjusted Performance: An Alternative Approach to Interpret Long-Run Returns," October 2001, Toronto, Canada

Financial Management Association International, "Does Ownership Matter in the Presence of Strict Anti-Activism Legislation? Evidence From Equity Transactions in Denmark," June 2001, Paris, France.

European Financial Management Association, "Volatility-Adjusted Performance: An Alternative Approach to Interpret Long-Run Returns," June 2000, Athens, Greece.

Financial Management Association International, "Volatility-Adjusted Performance: An Alternative Approach to Interpret Long-Run Returns," June 2000, Edinburgh, Scotland.

European Finance Association Annual Meeting, "CEO Turnover and Corporate Governance: Evidence from the Copenhagen Stock Exchange," August, 1999, Helsinki, Finland.

## CONFERENCE (ACCEPTED PAPER) (CONT.)

Workshop on Corporate Finance, "Volatility-Adjusted Performance: An Alternative Approach to Interpret Long-Run Returns," Copenhagen, May, 1999, Copenhagen, Denmark.

Financial Management Association International, "Post-Acquisition Performance in the Short and Long Run: Evidence from the Copenhagen Stock Exchange 1993 - 1997," June, 1998, Barcelona, Spain.

## PROFESSIONAL MEMBERSHIPS

Financial Management Association, Western Finance Association

## OTHER ACTIVITIES

| | |
|---|---|
| Designed, developed, and instructed an executive course titled "Financial Modelling for Corporate Finance" for Financial Modelling World, Australia. | 2002 |
| Designed, developed, and instructed an executive course titled "Financial Modeling in Excel and Security Analysis" for FT New York Institute of Finance | 2001 – 2002 |
| Expert consultant on the development of the web-based course "Business Valuation" for FT New York Institute of Finance. | 2001 |

Referee for Journal of Empirical Corporate Finance; and International Review of Financial Analysis.

## HONORS

The Dean's Office of the Wharton School has officially recognized my teaching efforts for the course Security Analysis in the fall of 2000 and for the course Corporate Finance in the spring 2001.

# Exhibit 2
## Documents Considered by Torben Voetmann

| Document Title | Document Date |
|---|---|
| **Legal Pleadings** | |
| Amended Complaint | March 27, 2009 |
| **Testimony** | |
| Deposition of Adam Werner | February 9, 2012 |
| **Trading Suspension Order** | |
| Order of Suspension of Trading | October 1, 2007 |
| Reuters Press Release: US SEC Suspends Trading in China Expert Technology | October 1, 2007 |
| **Expert Reports** | |
| Declaration of Dr. Adam Werner, with Exhibits 1-11 | January 20, 2012 |
| Amended Declaration of Dr. Adam Werner, with Exhibits 1-11 | February 8, 2012 |
| **Documents Considered by Dr. Werner** | |
| CXTI Earnings News | |
| CXTI News Headlines | |
| All other data and documents produced by Dr. Werner in this matter | |
| **SEC Filings** | |
| Press Release: 8-K, China Expert Technology Reports Financial Results for First Quarter of 2006 | May 15, 2006 |
| China Expert Technology, Inc. Form 8-K, Current Report | August 10, 2006 |
| China Expert Technology, Inc. Form 8-K, Current Report | November 13, 2006 |
| Press Release: 8-K, China Expert Announces 2006 Fourth Quarter and Full Year Financial Results | April 12, 2007 |
| China Expert Technology, Inc. Form 8-K, Current Report | May 9, 2007 |
| China Expert Technology, Inc. Form 8-K, Current Report | July 18, 2007 |
| Press Release: 8-K, China Expert Announces CFO Resignation | July 19, 2007 |
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| China Expert Technology Inc (CXTI) - ValueEngine Recommendation & Basic Information | February 8, 2007 |
| China Expert Technology Inc (CXTI) - ValueEngine Recommendation & Basic Information | February 7, 2007 |
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| Roth Capital Partners-Research Team<br>http://www.roth.com/main/Page.aspx?PageID=6010 | |

| **Document Title** | **Document Date** |
| --- | --- |
| **Data Sources** | |
| Bloomberg | |
| Capital IQ | |
| Thomson Reuters | |

Any other documents specifically cited in the report or exhibits, but not listed in this exhibit.

# Exhibit 3
# Replication of Dr. Werner's Event Study
# 3/31/06 – 10/1/07

| | Coefficient (Log Return) | Percentage Return[1] | T-Statistic[2] |
|---|---|---|---|
| S&P 500 Index | 1.32 | | 2.17 * |
| Nasdap China Index | 0.26 | | 1.04 |
| Constant | -0.01 | | -1.1 |
| Indicator 5/16/06 | 0.09 | 9.1% | 0.94 |
| Indicator 8/15/06 | -0.11 | -10.1% | -1.14 |
| Indicator 11/15/06 | 0.35 | 41.3% | 3.73 ** |
| Indicator 4/13/07 | 0.12 | 12.5% | 1.28 |
| Indicator 5/15/07 | -0.10 | -9.9% | -1.12 |
| Indicator 7/20/07 | -0.27 | -23.5% | -2.87 ** |

| | |
|---|---|
| **R-Squared** | 0.09 |
| **# of Observations** | 378 |

Source: Data produced by Dr. Werner

Note:

[1] Coefficient of dummy variables reflect log returns and are converted to percentage returns using the following equation: percentage return = exp(log return) – 1.

[2] One asterisk indicates significance at the 95% confidence level; two asterisks indicate significance at the 99% confidence level.

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 3/31/06 | $1.93 | 549,572 | -8.10% | -0.42% | 0.52% | -7.21% | |
| 4/3/06 | $1.83 | 653,618 | -5.18% | 0.23% | 1.72% | -5.38% | |
| 4/4/06 | $2.14 | 803,288 | 16.94% | 0.63% | 0.93% | 16.33% | |
| 4/5/06 | $2.15 | 155,530 | 0.47% | 0.43% | 0.97% | 0.19% | |
| 4/6/06 | $2.10 | 49,187 | -2.33% | -0.19% | 0.30% | -1.63% | |
| 4/7/06 | $2.05 | 87,800 | -2.38% | -1.03% | -0.01% | -0.50% | |
| 4/10/06 | $2.05 | 19,818 | 0.00% | 0.08% | 1.34% | 0.08% | |
| 4/11/06 | $2.04 | 62,840 | -0.49% | -0.77% | 0.48% | 0.95% | |
| 4/12/06 | $2.12 | 389,002 | 3.92% | 0.12% | -0.56% | 4.46% | |
| 4/13/06 | $2.15 | 56,500 | 1.42% | 0.08% | -2.07% | 2.41% | |
| 4/17/06 | $2.09 | 64,150 | -2.79% | -0.29% | 0.52% | -2.02% | |
| 4/18/06 | $2.02 | 97,390 | -3.35% | 1.74% | 0.61% | -5.16% | |
| 4/19/06 | $2.02 | 47,450 | 0.00% | 0.17% | 0.62% | 0.15% | |
| 4/20/06 | $2.05 | 34,740 | 1.49% | 0.12% | -0.34% | 1.96% | |
| 4/21/06 | $2.00 | 45,750 | -2.44% | -0.01% | 1.30% | -2.22% | |
| 4/24/06 | $2.03 | 34,749 | 1.50% | -0.24% | -0.56% | 2.52% | |
| 4/25/06 | $1.97 | 47,855 | -2.96% | -0.49% | -0.07% | -1.79% | |
| 4/26/06 | $2.04 | 62,820 | 3.55% | 0.28% | 1.21% | 3.40% | |
| 4/27/06 | $2.01 | 23,610 | -1.47% | 0.33% | -0.04% | -1.36% | |
| 4/28/06 | $2.01 | 13,262 | 0.00% | 0.07% | 1.48% | 0.07% | |
| 5/1/06 | $2.01 | 24,600 | 0.00% | -0.41% | 0.00% | 1.09% | |
| 5/2/06 | $2.00 | 52,700 | -0.50% | 0.61% | 0.00% | -0.77% | |
| 5/3/06 | $2.00 | 33,738 | 0.00% | -0.41% | 0.00% | 1.08% | |
| 5/4/06 | $2.00 | 133,187 | 0.00% | 0.34% | 0.00% | 0.09% | |
| 5/5/06 | $2.00 | 64,074 | 0.00% | 1.03% | 0.00% | -0.81% | |
| 5/8/06 | $2.00 | 77,391 | 0.00% | -0.08% | 3.93% | -0.35% | |
| 5/9/06 | $2.00 | 99,550 | 0.00% | 0.04% | 2.72% | -0.20% | |
| 5/10/06 | $2.13 | 179,002 | 6.50% | -0.17% | 1.14% | 7.00% | |
| 5/11/06 | $2.04 | 108,501 | -4.23% | -1.28% | -0.86% | -1.84% | |
| 5/12/06 | $2.03 | 28,036 | -0.49% | -1.12% | 3.29% | 0.71% | |
| 5/15/06 | $2.18 | 339,501 | 7.39% | 0.25% | 4.31% | 6.45% | |
| 5/16/06 | $2.35 | 1,447,082 | 7.80% | -0.19% | -1.55% | 9.08% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 5/17/06 | $2.35 | 313,875 | 0.00% | -1.68% | 0.33% | 2.73% | |
| 5/18/06 | $2.26 | 558,239 | -3.83% | -0.67% | -0.32% | -2.37% | |
| 5/19/06 | $2.30 | 62,682 | 1.77% | 0.41% | 2.62% | 1.09% | |
| 5/22/06 | $2.26 | 124,509 | -1.74% | -0.39% | 0.55% | -0.84% | |
| 5/23/06 | $2.25 | 176,587 | -0.44% | -0.43% | -4.08% | 1.75% | |
| 5/24/06 | $2.21 | 122,551 | -1.78% | 0.16% | -0.71% | -1.27% | |
| 5/25/06 | $2.26 | 194,280 | 2.26% | 1.14% | -0.04% | 1.30% | |
| 5/26/06 | $2.25 | 125,642 | -0.44% | 0.57% | 1.78% | -1.11% | |
| 5/30/06 | $2.30 | 76,391 | 2.22% | -1.59% | 0.91% | 4.72% | |
| 5/31/06 | $2.25 | 203,744 | -2.17% | 0.81% | -0.97% | -2.45% | |
| 6/1/06 | $2.27 | 177,900 | 0.89% | 1.23% | 2.74% | -0.88% | |
| 6/2/06 | $2.31 | 356,474 | 1.76% | 0.20% | -0.91% | 2.29% | |
| 6/5/06 | $2.25 | 60,200 | -2.60% | -1.78% | 0.94% | 0.03% | |
| 6/6/06 | $2.38 | 665,547 | 5.78% | -0.11% | -0.29% | 6.59% | |
| 6/7/06 | $2.40 | 103,770 | 0.84% | -0.61% | -5.64% | 3.74% | |
| 6/8/06 | $2.40 | 115,968 | 0.00% | 0.14% | 0.44% | 0.24% | |
| 6/9/06 | $2.41 | 36,614 | 0.42% | -0.45% | -2.40% | 2.19% | |
| 6/12/06 | $2.35 | 51,098 | -2.49% | -1.27% | 0.27% | -0.37% | |
| 6/13/06 | $2.36 | 175,275 | 0.43% | -1.03% | 0.05% | 2.34% | |
| 6/14/06 | $2.28 | 50,535 | -3.39% | 0.52% | -1.11% | -3.25% | |
| 6/15/06 | $2.36 | 65,974 | 3.51% | 2.12% | 0.12% | 1.19% | |
| 6/16/06 | $2.40 | 241,725 | 1.69% | -0.37% | 2.54% | 2.08% | |
| 6/19/06 | $2.56 | 324,732 | 6.67% | -0.91% | 1.28% | 8.19% | |
| 6/20/06 | $2.71 | 149,288 | 5.86% | 0.00% | 0.25% | 6.36% | |
| 6/21/06 | $2.65 | 141,464 | -2.21% | 0.97% | -0.35% | -2.85% | |
| 6/22/06 | $2.60 | 78,627 | -1.89% | -0.53% | -0.15% | -0.63% | |
| 6/23/06 | $2.60 | 42,374 | 0.00% | -0.09% | 0.59% | 0.50% | |
| 6/26/06 | $2.71 | 234,149 | 4.23% | 0.49% | 1.79% | 3.65% | |
| 6/27/06 | $2.66 | 68,630 | -1.85% | -0.91% | 0.04% | -0.13% | |
| 6/28/06 | $2.63 | 22,643 | -1.13% | 0.55% | -0.07% | -1.29% | |
| 6/29/06 | $2.63 | 20,645 | 0.00% | 2.16% | 2.37% | -2.84% | |
| 6/30/06 | $2.76 | 82,444 | 4.94% | -0.21% | -0.08% | 5.82% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 7/3/06 | $2.63 | 36,625 | -4.71% | 0.79% | 1.89% | -5.64% | |
| 7/5/06 | $2.60 | 45,759 | -1.14% | -0.72% | -1.28% | 0.68% | |
| 7/6/06 | $2.67 | 209,180 | 2.69% | 0.25% | 1.84% | 2.42% | |
| 7/7/06 | $2.70 | 414,821 | 1.12% | -0.67% | -0.58% | 2.73% | |
| 7/10/06 | $3.14 | 2,211,701 | 16.30% | 0.15% | 0.12% | 16.66% | |
| 7/11/06 | $3.03 | 353,301 | -3.50% | 0.41% | 0.46% | -3.62% | |
| 7/12/06 | $3.00 | 361,705 | -0.99% | -1.09% | 0.04% | 0.98% | |
| 7/13/06 | $2.99 | 388,211 | -0.33% | -1.30% | -5.15% | 3.34% | |
| 7/14/06 | $2.97 | 65,861 | -0.67% | -0.49% | 0.82% | 0.30% | |
| 7/17/06 | $2.79 | 20,833 | -6.06% | -0.14% | 1.11% | -5.65% | |
| 7/18/06 | $2.65 | 115,700 | -5.02% | 0.19% | 0.09% | -4.77% | |
| 7/19/06 | $2.70 | 33,977 | 1.89% | 1.86% | -2.68% | 0.68% | |
| 7/20/06 | $2.70 | 13,230 | 0.00% | -0.85% | 0.64% | 1.51% | |
| 7/21/06 | $2.70 | 26,800 | 0.00% | -0.71% | 0.81% | 1.27% | |
| 7/24/06 | $2.62 | 35,400 | -2.96% | 1.66% | 0.15% | -4.58% | |
| 7/25/06 | $2.66 | 19,776 | 1.53% | 0.63% | 1.18% | 0.92% | |
| 7/26/06 | $2.61 | 27,300 | -1.88% | -0.04% | -0.21% | -1.25% | |
| 7/27/06 | $2.52 | 42,608 | -3.45% | -0.41% | -1.15% | -2.11% | |
| 7/28/06 | $2.70 | 192,300 | 7.14% | 1.22% | -1.04% | 6.30% | |
| 7/31/06 | $2.59 | 28,461 | -4.07% | -0.15% | -3.51% | -2.48% | |
| 8/1/06 | $2.70 | 8,266 | 4.25% | -0.45% | -0.95% | 5.69% | |
| 8/2/06 | $2.69 | 21,632 | -0.37% | 0.60% | -0.54% | -0.48% | |
| 8/3/06 | $2.78 | 44,135 | 3.35% | 0.13% | -0.26% | 3.79% | |
| 8/4/06 | $2.75 | 66,430 | -1.08% | -0.07% | -2.35% | 0.16% | |
| 8/7/06 | $2.63 | 12,500 | -4.36% | -0.28% | -1.43% | -3.13% | |
| 8/8/06 | $2.66 | 20,402 | 1.14% | -0.34% | 2.31% | 1.54% | |
| 8/9/06 | $2.65 | 34,374 | -0.38% | -0.43% | -0.09% | 0.76% | |
| 8/10/06 | $2.66 | 43,017 | 0.38% | 0.46% | 1.61% | -0.11% | |
| 8/11/06 | $2.70 | 37,317 | 1.50% | -0.40% | 0.33% | 2.50% | |
| 8/14/06 | $2.70 | 95,880 | 0.00% | 0.12% | -2.35% | 1.00% | |
| 8/15/06 | $2.47 | 351,825 | -8.52% | 1.37% | 1.62% | -10.03% | |
| 8/16/06 | $2.26 | 295,337 | -8.50% | 0.77% | 1.40% | -9.26% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 8/17/06 | $2.37 | 252,687 | 4.87% | 0.16% | -0.93% | 5.47% | |
| 8/18/06 | $2.38 | 80,530 | 0.42% | 0.37% | -0.30% | 0.55% | |
| 8/21/06 | $2.45 | 11,289 | 2.94% | -0.37% | 0.21% | 3.94% | |
| 8/22/06 | $2.45 | 30,523 | 0.00% | 0.10% | 1.16% | 0.11% | |
| 8/23/06 | $2.37 | 44,460 | -3.27% | -0.45% | 0.03% | -2.17% | |
| 8/24/06 | $2.40 | 20,565 | 1.27% | 0.24% | 0.52% | 1.36% | |
| 8/25/06 | $2.50 | 36,300 | 4.17% | -0.07% | 0.24% | 4.77% | |
| 8/28/06 | $2.48 | 59,687 | -0.80% | 0.52% | 2.35% | -1.53% | |
| 8/29/06 | $2.44 | 42,245 | -1.61% | 0.19% | 0.32% | -1.41% | |
| 8/30/06 | $2.55 | 25,550 | 4.51% | 0.00% | 0.34% | 4.98% | |
| 8/31/06 | $2.60 | 23,250 | 1.96% | -0.03% | 0.30% | 2.48% | |
| 9/1/06 | $2.52 | 13,190 | -3.08% | 0.55% | -1.54% | -2.87% | |
| 9/5/06 | $2.52 | 11,543 | 0.00% | 0.17% | 0.26% | 0.25% | |
| 9/6/06 | $2.49 | 26,376 | -1.19% | -0.99% | 0.42% | 0.54% | |
| 9/7/06 | $2.47 | 32,500 | -0.80% | -0.48% | -1.34% | 0.71% | |
| 9/8/06 | $2.60 | 385,735 | 5.26% | 0.38% | 0.28% | 5.23% | |
| 9/11/06 | $2.65 | 138,290 | 1.92% | 0.05% | 0.50% | 2.28% | |
| 9/12/06 | $2.70 | 460,340 | 1.89% | 1.04% | 0.66% | 0.87% | |
| 9/13/06 | $2.70 | 23,500 | 0.00% | 0.38% | -0.69% | 0.22% | |
| 9/14/06 | $2.68 | 127,010 | -0.74% | -0.14% | -0.01% | -0.03% | |
| 9/15/06 | $2.65 | 43,885 | -1.12% | 0.27% | 1.80% | -1.40% | |
| 9/18/06 | $2.70 | 69,450 | 1.89% | 0.10% | 0.97% | 2.05% | |
| 9/19/06 | $2.65 | 27,600 | -1.85% | -0.22% | 0.20% | -1.09% | |
| 9/20/06 | $2.70 | 158,134 | 1.89% | 0.52% | 0.01% | 1.73% | |
| 9/21/06 | $2.76 | 249,243 | 2.22% | -0.54% | 0.65% | 3.34% | |
| 9/22/06 | $2.69 | 34,979 | -2.54% | -0.25% | -0.90% | -1.46% | |
| 9/25/06 | $2.69 | 21,700 | 0.00% | 0.88% | -0.18% | -0.57% | |
| 9/26/06 | $2.60 | 75,547 | -3.35% | 0.75% | -1.07% | -3.51% | |
| 9/27/06 | $2.55 | 24,550 | -1.92% | 0.02% | 0.99% | -1.67% | |
| 9/28/06 | $2.51 | 19,430 | -1.57% | 0.19% | 1.16% | -1.58% | |
| 9/29/06 | $2.50 | 11,016 | -0.40% | -0.25% | 1.17% | 0.16% | |
| 10/2/06 | $2.44 | 15,800 | -2.40% | -0.34% | 0.00% | -1.43% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 10/3/06 | $2.44 | 17,850 | 0.00% | 0.21% | 0.00% | 0.26% | |
| 10/4/06 | $2.38 | 30,909 | -2.46% | 1.21% | 0.00% | -3.47% | |
| 10/5/06 | $2.60 | 11,550 | 9.24% | 0.22% | 0.00% | 9.51% | |
| 10/6/06 | $2.60 | 2,000 | 0.00% | -0.27% | 0.00% | 0.90% | |
| 10/9/06 | $2.55 | 38,000 | -1.92% | 0.08% | 2.34% | -2.08% | |
| 10/10/06 | $2.60 | 7,900 | 1.96% | 0.20% | 0.08% | 2.21% | |
| 10/11/06 | $2.50 | 2,585 | -3.85% | -0.26% | -0.09% | -2.98% | |
| 10/12/06 | $2.50 | 26,775 | 0.00% | 0.95% | -0.66% | -0.54% | |
| 10/13/06 | $2.55 | 12,100 | 2.00% | 0.20% | 0.31% | 2.19% | |
| 10/16/06 | $2.46 | 32,775 | -3.53% | 0.25% | -0.86% | -3.11% | |
| 10/17/06 | $2.47 | 31,900 | 0.41% | -0.37% | -0.29% | 1.51% | |
| 10/18/06 | $2.38 | 6,150 | -3.64% | 0.14% | 1.64% | -3.71% | |
| 10/19/06 | $2.44 | 19,800 | 2.52% | 0.07% | 0.12% | 2.94% | |
| 10/20/06 | $2.41 | 20,622 | -1.23% | 0.12% | 0.06% | -0.87% | |
| 10/23/06 | $2.38 | 31,150 | -1.24% | 0.62% | 2.19% | -0.95% | |
| 10/24/06 | $2.37 | 37,200 | -0.42% | 0.03% | 2.22% | -0.48% | |
| 10/25/06 | $2.45 | 234,145 | 3.38% | 0.35% | 0.47% | 3.33% | |
| 10/26/06 | $2.40 | 10,500 | -2.04% | 0.50% | 0.64% | -2.32% | |
| 10/27/06 | $2.69 | 106,841 | 12.08% | -0.85% | -1.17% | 14.30% | |
| 10/30/06 | $2.69 | 157,083 | 0.00% | 0.04% | 0.50% | 0.35% | |
| 10/31/06 | $2.70 | 73,002 | 0.37% | 0.00% | 1.26% | 0.59% | |
| 11/1/06 | $2.65 | 182,700 | -1.85% | -0.74% | 1.02% | -0.62% | |
| 11/2/06 | $2.65 | 51,850 | 0.00% | -0.03% | 0.02% | 0.58% | |
| 11/3/06 | $2.55 | 46,520 | -3.77% | -0.22% | 0.58% | -3.12% | |
| 11/6/06 | $2.58 | 9,622 | 1.18% | 1.13% | 1.32% | -0.12% | |
| 11/7/06 | $2.58 | 2,300 | 0.00% | 0.22% | 0.54% | 0.10% | |
| 11/8/06 | $2.55 | 15,100 | -1.16% | 0.21% | -1.18% | -0.60% | |
| 11/9/06 | $2.50 | 17,425 | -1.96% | -0.53% | 1.77% | -1.18% | |
| 11/10/06 | $2.50 | 79,150 | 0.00% | 0.19% | -1.35% | 0.64% | |
| 11/13/06 | $2.57 | 280,075 | 2.80% | 0.25% | -1.88% | 3.51% | |
| 11/14/06 | $2.45 | 600,550 | -4.67% | 0.64% | 1.22% | -5.25% | |
| 11/15/06 | $3.48 | 4,469,304 | 42.04% | 0.24% | 2.74% | 41.37% | Yes |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 11/16/06 | $3.46 | 621,855 | -0.57% | 0.23% | -0.10% | -0.32% | |
| 11/17/06 | $3.38 | 165,497 | -2.31% | 0.10% | 1.88% | -2.39% | |
| 11/20/06 | $3.31 | 139,923 | -2.07% | -0.05% | 1.99% | -1.98% | |
| 11/21/06 | $3.65 | 210,279 | 10.27% | 0.16% | 1.20% | 10.29% | |
| 11/22/06 | $3.90 | 882,897 | 6.85% | 0.23% | 0.73% | 6.89% | |
| 11/24/06 | $3.90 | 73,247 | 0.00% | -0.37% | 0.10% | 1.00% | |
| 11/27/06 | $3.68 | 123,833 | -5.64% | -1.36% | 0.93% | -3.64% | |
| 11/28/06 | $3.83 | 701,005 | 4.08% | 0.35% | -0.47% | 4.28% | |
| 11/29/06 | $3.72 | 470,960 | -2.87% | 0.92% | 1.41% | -3.87% | |
| 11/30/06 | $3.80 | 392,350 | 2.15% | 0.08% | 2.83% | 1.85% | |
| 12/1/06 | $3.83 | 25,800 | 0.79% | -0.28% | 0.87% | 1.48% | |
| 12/4/06 | $3.85 | 781,070 | 0.52% | 0.89% | 2.98% | -0.86% | |
| 12/5/06 | $3.95 | 366,895 | 2.60% | 0.40% | 0.76% | 2.41% | |
| 12/6/06 | $4.09 | 489,410 | 3.54% | -0.13% | -0.83% | 4.50% | |
| 12/7/06 | $4.09 | 240,180 | 0.00% | -0.40% | -0.21% | 1.12% | |
| 12/8/06 | $3.98 | 119,065 | -2.69% | 0.18% | -3.61% | -1.47% | |
| 12/11/06 | $3.96 | 86,512 | -0.50% | 0.23% | 4.58% | -1.41% | |
| 12/12/06 | $3.83 | 67,995 | -3.28% | -0.10% | 0.72% | -2.81% | |
| 12/13/06 | $3.77 | 42,630 | -1.57% | 0.12% | 0.06% | -1.20% | |
| 12/14/06 | $4.40 | 2,444,951 | 16.71% | 0.87% | 1.79% | 15.48% | |
| 12/15/06 | $5.00 | 2,111,979 | 13.64% | 0.11% | 1.72% | 13.58% | |
| 12/18/06 | $4.76 | 212,217 | -4.80% | -0.32% | 2.60% | -4.51% | |
| 12/19/06 | $4.99 | 148,904 | 4.83% | 0.22% | 0.28% | 5.02% | |
| 12/20/06 | $5.78 | 1,887,233 | 15.83% | -0.14% | 0.79% | 16.44% | |
| 12/21/06 | $5.86 | 386,684 | 1.38% | -0.37% | -1.42% | 2.80% | |
| 12/22/06 | $6.00 | 856,121 | 2.39% | -0.53% | -0.70% | 3.85% | |
| 12/26/06 | $5.97 | 295,766 | -0.50% | 0.44% | -0.04% | -0.52% | |
| 12/27/06 | $5.85 | 164,245 | -2.01% | 0.70% | 2.30% | -2.96% | |
| 12/28/06 | $6.33 | 515,775 | 8.21% | -0.15% | -0.15% | 9.04% | |
| 12/29/06 | $6.33 | 252,965 | 0.00% | -0.45% | 3.09% | 0.35% | |
| 1/3/07 | $6.25 | 685,390 | -1.26% | -0.12% | 0.00% | -0.58% | |
| 1/4/07 | $6.63 | 1,668,811 | 6.08% | 0.12% | 1.28% | 6.13% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 1/5/07 | $6.56 | 189,236 | -1.06% | -0.61% | 0.28% | 0.21% | |
| 1/8/07 | $6.51 | 208,344 | -0.76% | 0.22% | 2.83% | -1.23% | |
| 1/9/07 | $6.60 | 342,088 | 1.38% | -0.05% | 3.22% | 1.17% | |
| 1/10/07 | $7.20 | 729,018 | 9.09% | 0.19% | 2.54% | 8.69% | |
| 1/11/07 | $6.84 | 243,072 | -5.00% | 0.63% | -1.08% | -5.02% | |
| 1/12/07 | $6.89 | 90,178 | 0.73% | 0.49% | -2.59% | 1.31% | |
| 1/16/07 | $6.75 | 129,444 | -2.03% | 0.08% | 2.91% | -2.33% | |
| 1/17/07 | $6.25 | 224,089 | -7.41% | -0.09% | -1.91% | -6.34% | |
| 1/18/07 | $5.87 | 386,558 | -6.08% | -0.30% | 0.35% | -5.29% | |
| 1/19/07 | $5.67 | 273,694 | -3.41% | 0.29% | 3.41% | -4.09% | |
| 1/22/07 | $5.74 | 772,445 | 1.23% | -0.53% | 3.97% | 1.47% | |
| 1/23/07 | $5.70 | 458,078 | -0.70% | 0.35% | 0.68% | -0.80% | |
| 1/24/07 | $5.99 | 179,833 | 5.09% | 0.85% | 1.13% | 4.18% | |
| 1/25/07 | $5.65 | 142,576 | -5.68% | -1.13% | -3.30% | -2.91% | |
| 1/26/07 | $5.58 | 101,592 | -1.24% | -0.12% | 2.45% | -1.17% | |
| 1/29/07 | $5.90 | 105,545 | 5.73% | -0.11% | 2.55% | 5.77% | |
| 1/30/07 | $6.05 | 223,731 | 2.54% | 0.58% | -0.97% | 2.57% | |
| 1/31/07 | $5.85 | 129,029 | -3.31% | 0.66% | -6.53% | -1.93% | |
| 2/1/07 | $6.01 | 218,053 | 2.74% | 0.54% | 0.41% | 2.45% | |
| 2/2/07 | $5.92 | 160,321 | -1.50% | 0.17% | -4.06% | -0.13% | |
| 2/5/07 | $5.45 | 357,857 | -7.94% | -0.10% | -1.14% | -7.05% | |
| 2/6/07 | $5.55 | 284,170 | 1.83% | 0.07% | 1.95% | 1.78% | |
| 2/7/07 | $4.65 | 1,032,453 | -16.22% | 0.14% | 2.32% | -16.42% | |
| 2/8/07 | $5.05 | 1,194,217 | 8.60% | -0.12% | 1.72% | 8.88% | |
| 2/9/07 | $4.98 | 217,152 | -1.39% | -0.71% | -0.55% | 0.22% | |
| 2/12/07 | $4.82 | 164,846 | -3.21% | -0.33% | 3.68% | -3.18% | |
| 2/13/07 | $5.20 | 888,038 | 7.88% | 0.76% | 1.50% | 6.98% | |
| 2/14/07 | $5.30 | 214,937 | 1.92% | 0.76% | 2.61% | 0.78% | |
| 2/15/07 | $5.34 | 101,647 | 0.75% | 0.10% | 3.10% | 0.37% | |
| 2/16/07 | $5.82 | 452,130 | 8.99% | -0.09% | 0.30% | 9.62% | |
| 2/20/07 | $6.15 | 969,118 | 5.67% | 0.28% | 0.00% | 5.84% | |
| 2/21/07 | $6.00 | 733,285 | -2.44% | -0.14% | 0.00% | -1.73% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 2/22/07 | $5.80 | 374,237 | -3.33% | -0.09% | 0.00% | -2.70% | |
| 2/23/07 | $5.85 | 397,736 | 0.86% | -0.36% | 0.00% | 1.88% | |
| 2/26/07 | $5.85 | 304,197 | 0.00% | -0.13% | 1.16% | 0.41% | |
| 2/27/07 | $5.00 | 787,321 | -14.53% | -3.47% | -9.24% | -7.70% | |
| 2/28/07 | $4.81 | 358,807 | -3.80% | 0.56% | 3.54% | -4.84% | |
| 3/1/07 | $4.86 | 178,214 | 1.04% | -0.26% | -2.79% | 2.68% | |
| 3/2/07 | $4.79 | 96,518 | -1.44% | -1.14% | 1.42% | 0.23% | |
| 3/5/07 | $4.36 | 745,472 | -8.98% | -0.94% | -1.32% | -7.02% | |
| 3/6/07 | $4.60 | 389,028 | 5.50% | 1.55% | 1.80% | 3.47% | |
| 3/7/07 | $4.65 | 46,850 | 1.09% | -0.25% | 2.74% | 1.25% | |
| 3/8/07 | $4.68 | 290,922 | 0.65% | 0.71% | 1.47% | -0.13% | |
| 3/9/07 | $5.06 | 274,302 | 8.12% | 0.07% | -0.62% | 8.78% | |
| 3/12/07 | $5.53 | 1,226,905 | 9.29% | 0.27% | 0.18% | 9.44% | |
| 3/13/07 | $5.20 | 451,899 | -5.97% | -2.04% | 0.92% | -3.09% | |
| 3/14/07 | $5.20 | 195,754 | 0.00% | 0.67% | -1.62% | 0.08% | |
| 3/15/07 | $4.99 | 375,640 | -4.04% | 0.37% | 1.86% | -4.44% | |
| 3/16/07 | $4.85 | 113,648 | -2.81% | -0.38% | -1.56% | -1.39% | |
| 3/19/07 | $4.95 | 25,359 | 2.06% | 1.09% | 2.12% | 0.61% | |
| 3/20/07 | $5.07 | 86,886 | 2.42% | 0.63% | 0.50% | 1.99% | |
| 3/21/07 | $5.00 | 172,830 | -1.38% | 1.71% | 1.12% | -3.32% | |
| 3/22/07 | $4.97 | 109,045 | -0.60% | -0.03% | 0.32% | -0.10% | |
| 3/23/07 | $4.97 | 91,480 | 0.00% | 0.11% | 0.18% | 0.35% | |
| 3/26/07 | $5.00 | 257,224 | 0.60% | 0.10% | 1.76% | 0.56% | |
| 3/27/07 | $4.95 | 93,412 | -1.00% | -0.62% | 0.72% | 0.16% | |
| 3/28/07 | $4.80 | 56,190 | -3.03% | -0.80% | 0.49% | -1.60% | |
| 3/29/07 | $4.73 | 111,712 | -1.46% | 0.37% | -0.51% | -1.28% | |
| 3/30/07 | $4.70 | 1,861,291 | -0.63% | -0.12% | -0.05% | 0.07% | |
| 4/2/07 | $5.20 | 398,458 | 10.64% | 0.26% | 2.46% | 10.16% | |
| 4/3/07 | $5.15 | 134,347 | -0.96% | 0.93% | 1.33% | -1.97% | |
| 4/4/07 | $5.60 | 212,900 | 8.74% | 0.11% | 0.82% | 8.93% | |
| 4/5/07 | $5.36 | 90,768 | -4.29% | 0.30% | 1.14% | -4.44% | |
| 4/9/07 | $5.20 | 132,175 | -2.99% | 0.06% | 2.23% | -3.09% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 4/10/07 | $5.70 | 516,939 | 9.62% | 0.26% | 1.43% | 9.43% | |
| 4/11/07 | $5.65 | 206,531 | -0.88% | -0.66% | 1.29% | 0.19% | |
| 4/12/07 | $6.05 | 321,212 | 7.08% | 0.62% | 1.77% | 6.30% | |
| 4/13/07 | $6.80 | 1,365,581 | 12.40% | 0.35% | -0.23% | 12.55% | |
| 4/16/07 | $6.77 | 520,978 | -0.44% | 1.08% | 2.74% | -1.99% | |
| 4/17/07 | $6.62 | 189,335 | -2.22% | 0.20% | 0.85% | -2.17% | |
| 4/18/07 | $6.59 | 180,118 | -0.45% | 0.07% | 0.64% | -0.17% | |
| 4/19/07 | $6.33 | 110,843 | -3.95% | -0.12% | -4.67% | -2.08% | |
| 4/20/07 | $6.73 | 384,797 | 6.32% | 0.93% | 4.41% | 4.43% | |
| 4/23/07 | $7.27 | 798,747 | 8.02% | -0.23% | 4.32% | 7.76% | |
| 4/24/07 | $7.54 | 310,479 | 3.71% | -0.04% | 0.40% | 4.21% | |
| 4/25/07 | $7.30 | 222,263 | -3.18% | 1.01% | 0.09% | -3.97% | |
| 4/26/07 | $7.25 | 169,259 | -0.68% | -0.08% | 1.31% | -0.38% | |
| 4/27/07 | $7.58 | 209,130 | 4.55% | -0.01% | -0.66% | 5.31% | |
| 4/30/07 | $7.35 | 69,621 | -3.03% | -0.78% | 2.54% | -2.13% | |
| 5/1/07 | $7.70 | 331,142 | 4.76% | 0.27% | 0.00% | 4.96% | |
| 5/2/07 | $7.75 | 167,465 | 0.65% | 0.65% | 0.00% | 0.33% | |
| 5/3/07 | $7.60 | 56,713 | -1.94% | 0.43% | 0.00% | -1.97% | |
| 5/4/07 | $7.62 | 101,292 | 0.26% | 0.21% | 0.00% | 0.52% | |
| 5/7/07 | $7.59 | 101,091 | -0.39% | 0.26% | 0.00% | -0.20% | |
| 5/8/07 | $7.58 | 33,749 | -0.13% | -0.12% | 3.58% | -0.35% | |
| 5/9/07 | $7.46 | 70,573 | -1.58% | 0.32% | 0.41% | -1.58% | |
| 5/10/07 | $7.40 | 69,205 | -0.80% | -1.40% | 0.63% | 1.43% | |
| 5/11/07 | $7.95 | 336,907 | 7.43% | 0.96% | -0.59% | 6.82% | |
| 5/14/07 | $7.93 | 250,083 | -0.25% | -0.18% | 0.86% | 0.30% | |
| 5/15/07 | $7.03 | 669,450 | -11.35% | -0.13% | -3.48% | -9.90% | |
| 5/16/07 | $6.74 | 755,740 | -4.13% | 0.86% | 2.65% | -5.33% | |
| 5/17/07 | $6.65 | 219,521 | -1.34% | -0.09% | 2.12% | -1.22% | |
| 5/18/07 | $6.77 | 702,577 | 1.80% | 0.66% | -0.05% | 1.48% | |
| 5/21/07 | $6.70 | 86,624 | -1.03% | 0.15% | 1.45% | -1.07% | |
| 5/22/07 | $6.38 | 574,620 | -4.78% | -0.06% | 1.02% | -4.43% | |
| 5/23/07 | $6.41 | 111,984 | 0.47% | -0.12% | 1.77% | 0.72% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 5/24/07 | $6.05 | 539,289 | -5.62% | -0.97% | -0.49% | -3.76% | |
| 5/25/07 | $6.20 | 51,389 | 2.48% | 0.55% | 1.67% | 1.86% | |
| 5/29/07 | $6.58 | 157,230 | 6.13% | 0.16% | 2.35% | 5.84% | |
| 5/30/07 | $6.48 | 142,249 | -1.52% | 0.80% | -6.76% | -0.24% | |
| 5/31/07 | $6.36 | 86,372 | -1.85% | 0.03% | 1.07% | -1.63% | |
| 6/1/07 | $6.25 | 273,015 | -1.73% | 0.37% | -3.16% | -0.87% | |
| 6/4/07 | $6.30 | 195,186 | 0.80% | 0.18% | -7.69% | 3.20% | |
| 6/5/07 | $6.22 | 101,071 | -1.27% | -0.53% | 3.51% | -0.92% | |
| 6/6/07 | $6.24 | 95,792 | 0.32% | -0.89% | 1.18% | 1.74% | |
| 6/7/07 | $5.75 | 900,504 | -7.85% | -1.76% | 3.39% | -5.98% | |
| 6/8/07 | $5.99 | 195,583 | 4.17% | 1.14% | 0.94% | 2.94% | |
| 6/11/07 | $6.38 | 138,508 | 6.51% | 0.10% | 2.45% | 6.28% | |
| 6/12/07 | $6.13 | 173,980 | -3.92% | -1.07% | 2.65% | -2.68% | |
| 6/13/07 | $6.03 | 95,963 | -1.63% | 1.52% | 2.04% | -3.55% | |
| 6/14/07 | $6.59 | 1,473,167 | 9.29% | 0.48% | -1.03% | 9.47% | |
| 6/15/07 | $6.53 | 200,593 | -0.91% | 0.65% | 0.58% | -1.37% | |
| 6/18/07 | $6.55 | 35,040 | 0.31% | -0.12% | 3.13% | 0.21% | |
| 6/19/07 | $7.12 | 576,552 | 8.70% | 0.17% | 0.60% | 8.87% | |
| 6/20/07 | $7.01 | 281,808 | -1.54% | -1.36% | -2.24% | 1.38% | |
| 6/21/07 | $7.31 | 272,794 | 4.28% | 0.62% | 0.95% | 3.74% | |
| 6/22/07 | $7.20 | 259,571 | -1.50% | -1.29% | -3.47% | 1.65% | |
| 6/25/07 | $7.50 | 366,492 | 4.17% | -0.32% | -4.29% | 6.37% | |
| 6/26/07 | $7.55 | 110,598 | 0.67% | -0.32% | 1.31% | 1.30% | |
| 6/27/07 | $7.40 | 120,756 | -1.99% | 0.90% | 2.86% | -3.32% | |
| 6/28/07 | $7.31 | 42,745 | -1.22% | -0.04% | -4.50% | 0.56% | |
| 6/29/07 | $7.10 | 93,810 | -2.87% | -0.16% | -2.45% | -1.52% | |
| 7/2/07 | $7.40 | 212,154 | 4.23% | 1.07% | -0.17% | 3.37% | |
| 7/3/07 | $7.21 | 20,588 | -2.57% | 0.36% | 1.98% | -3.00% | |
| 7/5/07 | $7.00 | 141,513 | -2.91% | 0.03% | -5.51% | -1.00% | |
| 7/6/07 | $7.18 | 149,254 | 2.57% | 0.33% | 4.89% | 1.42% | |
| 7/9/07 | $7.15 | 181,694 | -0.42% | 0.09% | 2.99% | -0.76% | |
| 7/10/07 | $7.20 | 16,799 | 0.70% | -1.42% | -1.20% | 3.48% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 7/11/07 | $7.10 | 53,133 | -1.39% | 0.57% | 0.38% | -1.70% | |
| 7/12/07 | $7.09 | 194,014 | -0.14% | 1.91% | 0.71% | -2.25% | |
| 7/13/07 | $7.08 | 64,533 | -0.14% | 0.31% | 0.08% | -0.03% | |
| 7/16/07 | $7.08 | 152,087 | 0.00% | -0.19% | -3.20% | 1.64% | |
| 7/17/07 | $6.75 | 213,545 | -4.66% | -0.01% | 2.48% | -4.74% | |
| 7/18/07 | $6.59 | 143,135 | -2.37% | -0.21% | 0.47% | -1.70% | |
| 7/19/07 | $6.45 | 191,097 | -2.12% | 0.45% | -0.01% | -2.17% | |
| 7/20/07 | $4.88 | 3,958,770 | -24.34% | -1.22% | 4.33% | -23.53% | Yes |
| 7/23/07 | $4.55 | 854,031 | -6.76% | 0.49% | 4.65% | -7.94% | |
| 7/24/07 | $3.72 | 2,116,005 | -18.24% | -1.98% | 0.11% | -15.63% | |
| 7/25/07 | $4.00 | 2,038,685 | 7.53% | 0.47% | 2.26% | 6.83% | |
| 7/26/07 | $4.48 | 1,841,265 | 12.00% | -2.33% | 1.12% | 15.83% | |
| 7/27/07 | $4.44 | 781,364 | -0.89% | -1.60% | 0.09% | 1.76% | |
| 7/30/07 | $4.45 | 581,245 | 0.23% | 1.03% | 2.40% | -1.19% | |
| 7/31/07 | $4.46 | 212,405 | 0.22% | -1.26% | 1.14% | 2.17% | |
| 8/1/07 | $4.08 | 270,324 | -8.52% | 0.72% | -3.81% | -7.98% | |
| 8/2/07 | $3.99 | 246,072 | -2.21% | 0.44% | 3.40% | -3.08% | |
| 8/3/07 | $3.94 | 107,748 | -1.25% | -2.66% | 3.66% | 1.92% | |
| 8/6/07 | $3.54 | 689,268 | -10.15% | 2.42% | 2.30% | -12.98% | |
| 8/7/07 | $3.36 | 472,646 | -5.08% | 0.62% | 0.44% | -5.45% | |
| 8/8/07 | $3.40 | 243,597 | 1.19% | 1.41% | -1.20% | 0.19% | |
| 8/9/07 | $3.25 | 230,729 | -4.41% | -2.96% | 2.34% | -0.60% | |
| 8/10/07 | $3.14 | 433,833 | -3.38% | 0.04% | -1.06% | -2.65% | |
| 8/13/07 | $2.61 | 1,735,123 | -16.88% | -0.05% | -0.12% | -16.35% | |
| 8/14/07 | $3.26 | 1,335,457 | 24.90% | -1.82% | 1.58% | 28.13% | Yes |
| 8/15/07 | $3.00 | 340,110 | -7.98% | -1.39% | 0.07% | -5.77% | |
| 8/16/07 | $2.90 | 85,807 | -3.33% | 0.32% | -1.60% | -2.83% | |
| 8/17/07 | $3.46 | 796,445 | 19.31% | 2.46% | -2.02% | 16.79% | |
| 8/20/07 | $3.40 | 252,008 | -1.73% | -0.03% | 5.59% | -2.55% | |
| 8/21/07 | $3.20 | 327,505 | -5.88% | 0.11% | 1.79% | -5.94% | |
| 8/22/07 | $3.08 | 349,796 | -3.75% | 1.17% | 1.59% | -5.09% | |
| 8/23/07 | $2.95 | 244,916 | -4.22% | -0.11% | 1.67% | -3.98% | |

# Exhibit 4
## Daily Abnormal Returns Predicted by Dr. Werner's Event Study

| Date | Price | Volume | CXTI Return | Market Return | Industry Return | Residual Return | Significant |
|---|---|---|---|---|---|---|---|
| 8/24/07 | $2.86 | 152,109 | -3.05% | 1.15% | 1.59% | -4.38% | |
| 8/27/07 | $3.00 | 167,850 | 4.90% | -0.85% | 0.49% | 6.52% | |
| 8/28/07 | $2.72 | 200,755 | -9.33% | -2.35% | 0.16% | -5.99% | |
| 8/29/07 | $2.58 | 395,482 | -5.15% | 2.19% | -1.52% | -6.96% | |
| 8/30/07 | $2.57 | 284,032 | -0.39% | -0.42% | 1.34% | 0.36% | |
| 8/31/07 | $2.65 | 132,725 | 3.11% | 1.12% | 1.06% | 1.88% | |
| 9/4/07 | $2.16 | 958,396 | -18.49% | 1.05% | -1.09% | -18.94% | Yes |
| 9/5/07 | $1.70 | 1,913,912 | -21.30% | -1.15% | 0.05% | -19.67% | Yes |
| 9/6/07 | $1.72 | 410,264 | 1.18% | 0.43% | 0.91% | 0.92% | |
| 9/7/07 | $1.47 | 1,267,358 | -14.53% | -1.69% | -2.17% | -11.63% | |
| 9/10/07 | $1.05 | 4,767,194 | -28.57% | -0.13% | 1.56% | -28.35% | Yes |
| 9/11/07 | $0.80 | 3,862,443 | -23.81% | 1.36% | -4.71% | -23.81% | Yes |
| 9/12/07 | $0.68 | 2,896,061 | -15.00% | 0.00% | 1.54% | -14.88% | |
| 9/13/07 | $0.44 | 2,293,766 | -35.29% | 0.84% | 2.83% | -36.12% | Yes |
| 9/14/07 | $0.50 | 2,875,409 | 13.64% | 0.02% | 0.88% | 13.96% | |
| 9/17/07 | $0.25 | 5,171,567 | -52.00% | -0.51% | 1.88% | -51.65% | Yes |
| 9/18/07 | $0.32 | 2,508,189 | 29.17% | 2.92% | -0.40% | 25.16% | Yes |
| 9/19/07 | $0.20 | 2,523,860 | -35.48% | 0.61% | -1.05% | -35.48% | Yes |
| 9/20/07 | $0.22 | 1,938,000 | 10.00% | -0.67% | 1.40% | 11.18% | |
| 9/21/07 | $0.29 | 2,384,789 | 31.82% | 0.46% | -0.49% | 31.89% | Yes |
| 9/24/07 | $0.33 | 1,196,881 | 13.79% | -0.53% | 0.84% | 14.96% | |
| 9/25/07 | $0.31 | 1,120,879 | -9.09% | -0.03% | -1.08% | -8.31% | |
| 9/26/07 | $0.28 | 695,423 | -6.67% | 0.54% | -1.72% | -6.41% | |
| 9/27/07 | $0.72 | 5,288,460 | 157.14% | 0.39% | 1.24% | 156.38% | Yes |
| 9/28/07 | $0.56 | 4,054,751 | -22.22% | -0.30% | 2.82% | -22.05% | Yes |
| 10/1/07 | $0.55 | 100 | -1.79% | 1.33% | 0.00% | -2.96% | |

Source: Data produced by Dr. Werner

Note: Logarithmic returns were used in the regression model. Standard returns have been presented in this exhibit. Significance calculated at the 95% confidence level.

# Exhibit 5
## Summary of Select Dates with Information about New Contracts

| News Date | Impact Date | Return | Residual Return | Significant | Notes |
|---|---|---|---|---|---|
| 4/4/06 | 4/4/06 | 16.94% | 16.33% | No | $41 mil. Shishi contract |
| 4/7/06 | 4/7/06 | -2.38% | -0.50% | No | $0.3 mil. Ning Bo contract |
| 4/12/06 | 4/12/06 | 3.92% | 4.46% | No | $22 mil. Dehua Phases 3 & 4 |
| 7/13/06 | 7/13/06 | -0.33% | 3.34% | No | $19 mil. Nanan contract |
| 11/14/06 | 11/15/06 | 42.04% | 41.37% | Yes | $15 mil. Cangshan contract |
| 12/4/06 | 12/4/06 | 0.52% | -0.86% | No | $25.5 mil. Minging contract |
| 12/14/06 | 12/14/06 | 16.71% | 15.48% | No | $60 mil. for 2 contracts |
| 12/20/06 | 12/20/06 | 15.83% | 16.44% | No | $57 mil. for 2 contracts |
| 4/30/07 | 5/1/07 | 4.76% | 4.96% | No | $48 mil. Xi'an contract |
| 5/14/07 | 5/15/07 | -11.35% | -9.90% | No | $10 mil. Baise City contract |
| 5/16/07 | 5/17/07 | -1.34% | -1.22% | No | $45.3 mil. for 2 contracts |
| 6/25/07 | 6/26/07 | 0.67% | 1.30% | No | $72.9 mil. for 3 contracts |
| 7/16/07 | 7/16/07 | 0.00% | 1.64% | No | $22.8 mil. Suizhou contract |

Source: Documents produced by Dr. Werner

Note: Logarithmic returns were used in the regression model. Standard returns have been presented in this exhibit.
Statistical significance calculated at the 95% confidence level.

# Exhibit 6
# Percentage of Institutional Ownership Compared to Industry[1]

| | Market Capitalization (in millions) | | | | Institutional Ownership | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter | CXTI Average[2] | Industry Minimum | Industry Average | Industry Maximum | CXTI Institutional Ownership[3] | As % of CXTI Shares Outstanding | Industry Average | CXTI Significantly Different from Industry[4] |
| 2Q06 | $62.5 | $61.9 | $169.1 | $349.0 | 452,620 | 1.6% | 44.5% | Yes |
| 3Q06 | $73.6 | $55.2 | $163.5 | $366.3 | 1,091,435 | 3.9% | 38.9% | Yes |
| 4Q06 | $98.9 | $52.7 | $168.6 | $394.2 | 5,659,139 | 19.5% | 38.5% | Yes |
| 1Q07 | $160.2 | $73.7 | $210.8 | $457.1 | 6,946,073 | 23.9% | 46.3% | Yes |
| 2Q07 | $211.9 | $92.5 | $232.2 | $495.1 | 7,206,523 | 22.3% | 47.3% | Yes |
| 3Q07 | $109.5 | $79.3 | $233.5 | $511.9 | 1,878,709 | 5.8% | 43.3% | Yes |
| **Quarterly Avg.** | **$119.4** | **$69.2** | **$196.3** | **$428.9** | **3,872,417** | **12.8%** | **43.1%** | |

Source: Bloomberg; Thomson; Capital IQ

Note:

[1] The companies in the Communications Equipment industry were divided into quartiles based on market capitalization, excluding firms with zero market capitalization. Only companies in the same market capitalization quartile as China Expert Technology are used to calculate market capitalization and institutional ownership statistics.

[2] Market capitalization is averaged over each day in the quarter.

[3] Institutional ownership is as of the end of the quarter.

[4] Significance is at the 95% level. A bootstrap resampling procedure was used to empirically derive the mean and standard deviation of institutional holding % of companies in the same percentile as CXTI in terms of market capitalization. These parameters were then used to test whether observed institutional holding % of CXTI is significant.

# Exhibit 7
# CXTI Short Interest

| | | vs. Shares Outstanding | | vs. Average Daily Volume | | vs. Institutional Holdings | |
|---|---|---|---|---|---|---|---|
| Quarter | CXTI Short Interest [1] | CXTI Shares Outstanding | Short Interest as a % | Average Daily Volume | Short Interest as a % | Institutional Holdings | Short Interest as a % |
| 2Q06 | 67,141 | 27,946,000 | 0.2% | 167,640 | 40.1% | 452,620 | 14.8% |
| 3Q06 | 55,047 | 27,965,000 | 0.2% | 131,044 | 42.0% | 1,091,435 | 5.0% |
| 4Q06 | 348,202 | 29,082,000 | 1.2% | 348,563 | 99.9% | 5,659,139 | 6.2% |
| 1Q07 | 879,803 | 29,082,000 | 3.0% | 389,244 | 226.0% | 6,946,073 | 12.7% |
| 2Q07 | 1,038,824 | 32,368,000 | 3.2% | 288,306 | 360.3% | 7,206,523 | 14.4% |
| 3Q07 | 713,214 | 32,368,000 | 2.2% | 1,138,718 | 62.6% | 1,878,709 | 38.0% |

Source: Bloomberg; Thomson

Note:
[1] Bloomberg reports short interest mid-month until September 2007, when short interest is reported bi-monthly. The short interest displayed for all quarters except 3Q07 is calculated as the average of the reported short interest in the last month in a quarter and the first month in the following quarter. For 3Q07, since short interest becomes available bi-monthly, the short interest displayed is as of the end of the last month in the quarter.

# Exhibit 8
## Summary of Quoted Bid-Ask Spreads
## from CXTI Market Makers Identified by Dr. Werner on Select Dates[1]

| Dates | Average Quoted Spread | Volume-Weighted Average Quoted Spread |
|---|---|---|
| 7/10/06 | $0.4610 | $0.4197 |
| 11/15/06 | $0.6512 | $0.5585 |
| 12/14/06 | $0.4731 | $0.4447 |
| 7/20/07 | $0.3880 | $0.3473 |
| 7/24/07 | $0.3751 | $0.3457 |
| **Average** | **$0.4697** | **$0.4088** [2] |

Source: Data produced by Dr. Werner

Note:

[1] Bid-ask spreads with bid prices less than or equal to $0.05 or ask prices greater than or equal to $20.00 are excluded.

[2] The average quoted spread is weighted by volume on each day.